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INCREASED DUTIES ON CERTAIN SHELLED FILBERTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

SEPTEMBER 14, 1984

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INCREASED DUTIES ON CERTAIN SHELLED FILBERTS

FRIDAY, SEPTEMBER 14, 1984

U.S. SENATE,
SUBCOMMITTEES ON INTERNATIONAL TRADE
AND TAXATION AND DEBT MANAGEMENT,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Bob Packwood presiding.

Present: Senators Packwood and Symms.

[The press release announcing the hearing and the prepared statement of Senator Moynihan follow:]

[Press Release No. 84-173—Aug. 31, 1984]

FINANCE SUBCOMMITTEES SET JOINT HEARING ON S. 2429; TO BE FOLLOWED BY CONSIDERATION OF S. 2933

Senator Bob Packwood, Chairman of the Subcommittee on Taxation and Debt Management, and Senator John C. Danforth, Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittees would hold a joint hearing on S. 2429, a bill introduced by Senators Packwood and Hatfield. S. 2429 would amend the Tariff Schedules of the United States to increase the duty on certain shelled filberts.

Immediately following the joint hearing, the Subcommittee on Taxation and Debt Management will hear testimony on S. 2933, a bill introduced by Senator D'Amato. S. 2933 would provide that the restrictions imposed by the Deficit Reduction Act of 1984 with respect to property leased by a tax-exempt entity would generally not apply to certain correctional facilities leased by State and local governments.

The hearing will be held on Friday, September 14, 1984, at 9:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN ON S. 2429, A BILL TO INCREASE DUTIES ON CERTAIN SHELLED FILBERTS

Mr. Chairman, let me say from the start that I oppose S. 2429. There is neither an economic need nor a health rationale for legislation that would dramatically increase tariffs on imported filberts (also known as hazelnuts). Instead, S. 2429 would limit the range of products available to the consumer, increase prices, and introduce a note of friction into our trade relations with two key NATO allies, Turkey and Italy.

Frankly, Mr. Chairman, I did not and do not think there is a trade problem with respect to filberts. This is not an area of rapidly changing technology: filberts have been grown commercially in the Mediterranean region and in the U.S. Pacific Northwest for decades at least. Nor do we have a situation where imports are suddenly rising threatening to drive an American industry out of business. Rather, for the past several years imports have fluctuated but are not on a discernible upward trend. Of course, last year adverse weather and tree disease led to a very bad year for domestic producers.

In any event, last month we asked the International Trade Commission to look into filbert trade and I certainly think that any legislative action before the ITC reports next year would be premature. I must also say, however, that I will be surprised if the ITC finds any dramatic developments.

Basically, we have a situation where U.S. consumption of in-shell filberts has been satisfied with U.S. production. Consumption of shelled filberts—which are salted and roasted for use in nut mixes or are processed into hazelnut paste and other products for use in the baking industry—has been predominately satisfied with imports. Turkey and Italy have supplied over 90% of the imported filberts.

Now it is important to note that there is a reason why many in the U.S. prefer imported filberts: they have a higher oil content and taste different, especially when ground into a paste. Indeed, you will hear later this morning from one baking company—Entenmann's, Inc.—which points out that the imported filbert is partly responsible for giving that company's products their unique flavor. Moreover, although the company has experimented with domestic filberts, it has found that the lower oil content in domestic nuts does not permit Entenmann's to make a suitable paste.

S. 2429 would result in increased prices for imported filberts paid by food processors and importers. Indeed, you will hear from a representative of the Association of Food Industries on precisely this point. Thus they are faced with the unpleasant choice of paying more for the product of their choice—and, of course, passing the cost increase on to the consumer ultimately—or switching to a product which they have decided is not as desirable for their purposes, although the domestic nut may be quite sufficient in general. I would also like to note for the record the views of one group that will not be testifying this morning, Public Voice for Food & Health Policy. They note their opposition to the bill, explaining: "Ultimately the consumer of processed foods, the user of produce nuts, and the home baker would bear the added cost."

Finally, the standards promulgated by the State of Oregon are not required by reason of the public health and safety. I have not read of anyone becoming ill from imported filberts. For good reason: imported filberts meet not only the standards for decay established by the Food and Drug Administration, but also the standards established by USDA which permit a decay rate less than one-half that permitted by FDA.

In conclusion, Mr. Chairman, let me say again that I think this legislation is unnecessary and could be harmful. Thank you.

Senator PACKWOOD. The hearing will come to order, please. We have two bills on the agenda today. One relating to filberts and one relating to prisons. And I don't think there is any connection between the two. We will take the hearing on the filbert bill first. I have a deep personal interest in this issue. Oregon is the principal filbert growing State in the United States. Oregon sets strict quality standards for its filberts. Those standards are normally matched by other growers in the United States. But, we are faced with a very unfair problem in the import of inferior filberts, below quality filberts, principally from Turkey, which is the other major competitor for us.

We do not ask for any favorable treatment disproportionate to any other nuts. We are not asking for anything other than the fact that imported filberts meet the standards that we are required to meet for the filberts we produce and market in Oregon and the United States.

Is Slade here yet?

[No response.]

Senator PACKWOOD. In that case, let me take first Mr. Richard Smith, the Administrator for the Foreign Agricultural Service for the Department of Agriculture. And, Mr. Smith, if Senator Gorton shows up while you are here, if you wouldn't mind, I would just ask if you would step aside just a moment and let him testify, and then we will call you back up.

Mr. SMITH. Fine.

Senator PACKWOOD. Thank you.

STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. SMITH. Mr. Chairman, I have a statement that I would like to submit for the record, and I will just summarize it. I have with me, on my right, Mr. Gil Sindelar who is head of our fruit and vegetable division of the Foreign Agricultural Service; and Mr. Charles Brader who is from the Agricultural Marketing Service.

Mr. Chairman, I'm here today to comment on the bill S. 2429, which would increase the import duty on filberts. We understand and are sympathetic to the concerns of our domestic filbert industry over import competition, and their desire to improve the quality of filbert marketings.

Nevertheless, we strongly believe that the process of increasing duties is the wrong way to address this problem. The United States has long been a leader in pressing for greater liberalization in world trade. We have intensively sought the removal of many barriers to market access, including import duties. And we have had some victories.

For example, in the family of tree nuts, Taiwan has agreed to reduce its import duty on filberts from 65 percent to 40 percent ad valorem effective January 1 of next year. Japan reduced its import duties on pistachios and pecans. And at the present time, we are seeking lower duties on almonds in the European Community and India, as well as walnuts in Japan.

In the area of other horticultural trade barriers, we have been seeking improved market access for fresh pears in Brazil and for full access for fresh cherries in South Korea.

For us now to seek an increase in our import tariffs, as proposed in Senate bill 2429, would certainly not be consistent with our efforts abroad. And more importantly, it would undermine our credibility in the GATT, and question our good faith in future negotiations.

Further, if the United States were to withdraw the duty concessions made to Turkey and increase the tariff rate, Turkey would most likely—as would other GATT members who ship filberts to us—would claim compensation for the lost duty right. This would be in the form of alternative tariff concession on other products imported into the United States or conceivably an outright retaliation on our exports.

It is our belief Turkey is one country in particular for which a very good potential exists for increasing our agricultural exports.

In closing, Mr. Chairman, I would remind the committee that our agriculture is export oriented. Farmers depend on exports for about a fourth of their marketing income. The likely cost to U.S. agriculture from this tariff boosting measure would far outweigh any benefits that might accrue.

We sincerely believe there are other and better ways to deal with the quality problem on imported products.

That concludes my statement, Mr. Chairman.

[The prepared statement of Mr. Smith follows:]

Statement by Richard A. Smith
Administrator, Foreign Agricultural Service
U.S. Department of Agriculture
before the
Senate Committee on Finance
September 14, 1984

Mr. Chairman, members of the Committee, I appreciate the opportunity to comment on S. 2429, a bill that would double the import duty on most filberts entering the United States.

Production and trade in filberts is minute relative to world agriculture and to production and trade of agricultural products by the United States. Just four countries dominate production. They are Turkey, Italy, Spain and the United States.

Turkey is by far the leading producer, often accounting for 70 percent and more of global output, followed by Italy, which contributes 20 to 25 percent of the total.

The United States and Spain share the remainder, seldom exceeding 10 percent between them, with Spain's output fractionally above that of the United States.

World production of filberts reached a record level of 578,440 metric tons in 1983, which was an increase of one-fourth over the previous high set in 1982. Although the tendency of filberts to bear well only in alternate years can mask production direction, world output has been trending up and further increases appear to be in the offing.

The crop in Turkey set another record in 1983 -- 420,000 metric tons, 20 percent greater than the previous production record, which was set only two years earlier.

The Italian crop also was a record high of 120,000 tons, and output in Spain appears to be moving up. U.S. filbert production, too, has been showing signs of growth since the late 1970s, a reflection of increased plantings in the Pacific Northwest.

U.S. commercial production of filberts, which is centered primarily in the Pacific Northwest with Oregon as the leading producer, totaled a record 17,060 metric tons in 1982. Disease hit the crop last year and production was down.

However, plantings have been heavy and the long-term trend is up. Ten years ago, for example, production was only 6,000 metric tons.

International Trade

As the world's largest producer, Turkey dominates international trade in filberts. Most of its exports are in the shelled form, and traditionally three-fourths or more of the exports move to Europe, where West Germany takes over half of Turkey's exports.

Other major European buyers include France, the United Kingdom, the Netherlands, and Switzerland. In addition, the Soviet Union has become increasingly important to Turkey as a filbert market.

Exports to the United States have represented slightly less than 3 percent of total Turkish shipments of filberts, but Turkey dominates the U.S. import market. It accounted for at least 80 percent of U.S. imports until 1982, when Italy's share rose to close to 30 percent of the total.

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Imports of filberts in the 1983/84 marketing year are valued at $8.6 million, up from $7.3 million the previous year.

U.S. imports consist mostly of shelled nuts and, prior to 1979, about 75 percent of the U.S. shelled market was supplied by imports. Since that time as more U.S. trees have come into production, imports have represented about one-half or less of the U.S. market supply.

U.S. exports of filberts have been relatively static, ranging between 3,400 and 3,900 metric tons over the past three seasons. Export value in the 1983/84 marketing year was $3.6 million, which represents a decline from $4.1 million the preceding year. Our principal export markets have been Canada, Australia, Venezuela, the Netherlands, and West Germany.

Senate Bill 2429

The U.S. import duty for shelled filberts (TSUS No. 145.46) was originally established at 10 cents per pound in the Tariff Act of 1930. In 1939, under a trade agreement with Turkey, the duty was reduced to 8 cents per pound, and a GATT binding to Turkey at this rate was accomplished in 1951.

The U.S. import duty for filberts in the shell has remained unchanged at 5 cents per pound since the Tariff Act of 1930. It would not be affected by S. 2429.

As a result of a request by the Senate Finance Committee, the International Trade Commission began a Section 332 investigation of the filbert industry on September 7 which should be completed by April 16, 1985.

Meanwhile, S. 2429 would increase the tariff rate applicable to most shelled filberts now entering this country under tariff item 145.46. The duty would rise from 8 cents per pound to 16 cents per pound for those countries accorded most favored nation status. In addition, the bill would raise the duty from 10 cents per pound to 18 cents per pound under a new tariff item 145.47 for countries, such as the Soviet Union, to which the United States does not grant MFN.

Filberts which failed to meet certain domestic quality standards would be subject to the rate of 66 cents per pound under MFN and 68 cents per pound for non-MFN countries.

The Administration cannot support the enactment of this legislation. We recognize that filbert production and trade is important to those who produce and buy and sell this product and we appreciate their concern.

But even more important is the fact that tampering with the rules of filbert trade could have an impact on U.S. agricultural trade far out of proportion to the role of the commodity itself in our agricultural economy.

U.S. agricultural exports are turning up again and will reach $38 billion this fiscal year after two years of decline, which was caused by global recession and other factors, among them trade protectionism among our trading partners.

The United States has held to its policy of liberal trade in agriculture during three difficult export years and has worked hard, with some success, to turn back the growing protectionist trend in agricultural trade.

We achieved a major breakthrough earlier this year in increased access to the Japanese market for U.S. beef and citrus. Taiwan has been persuaded to lower tariffs on a number of agricultural items, and we have made significant progress in moving the European Community to negotiate the entire question of subsidies in agriculture.

There have been other gains, and we have several actions pending in the Geneal Agreement on Tariffs and Trade to challenge what we consider protectionist or trade-distorting practices by our trading partners.

To now pass legislation that would increase barriers to farm products entering our own country would be to undermine our credibility in GATT and question our good faith in any future negotiations.

Furthermore, Mr. Chairman, if the United States were to withdraw the duty concession made to Turkey and increase the tariff rate, Turkey, and most likely other GATT members who ship or have shipped filberts to this country, would claim compensation for the higher duty.

This compensation could be in the form of alternative tariff concessions on other products imported into the United States. Because the authority to give such concessions, which was contained in the Trade Act of 1974, has expired, no compensation could be granted. This would invite retaliation by the requesting parties, which would most likely be against other U.S. agricultural commodities. So any gain for the filbert industry would be paid for by some other farm group.

In closing, Mr. Chairman, I would remind the Committee that our agriculture is export-oriented. Farmers depend on exports for about a fourth of their marketing income. In our view, the likely cost to U.S. agriculture from this tariff boosting measure would far outweigh any benefits that might accrue.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Senator PACKWOOD. What is it? What is the better way? Let's come right down to the nub of this.

Mr. SMITH. Well, I think we have authorities under the marketing order provisions that do provide ways to address the quality issue. And it's my understanding that we do have a requirement that certain minimum quality of standards be met by imports at this time.

Senator PACKWOOD. Well, yes, certain minimum quality standards, but they are not the standard that we normally have for domestic filberts in this country, which is called an Oregon No. 1 grade. Oregon No. 1 grade is the prevailing standard in our domestic market. And we let filberts in from Turkey that roughly fall 100 percent, on the average, below that standard.

Mr. SMITH. I suggest that I let Mr. Brader, who manages the marketing order program, address this program itself.

I just conclude by saying that our concern is that raising duties is not the way to address that issue.

Senator PACKWOOD. What I'm hoping is that we may reach—even in this hearing right now—a satisfactory settlement. If not raising the duties, how do we raise the quality or require the quality that is imported to be raised?

Mr. SMITH. Well, as I indicated, if that's a goal that is being sought, it should be done under some other authority. And I will let Mr. Brader talk about that.

Senator PACKWOOD. Mr. Brader, go right ahead. How do you spell your name?

Mr. BRADER. B-r-a-d-e-r.

Senator PACKWOOD. Thank you.

Mr. BRADER. Well, Mr. Chairman, it's true that under the marketing order authority imports of specified commodities, including filberts, must meet the same grade quality, maturity standards, as domestic products. And under the marketing order for filberts at the current time, there is a standard in effect which requires them to meet a specific requirement. And the critical issue here is that they are required to meet, I believe, a 2-percent tolerance for mold, rancidity, insect injury, and decay.

Senator PACKWOOD. And the Oregon No. 1 grade is a 1-percent standard.

Mr. BRADER. It is 1 percent.

Senator PACKWOOD. Without raising the tariff and without offending Turkey, how do we change that 2 percent to a 1-percent standard so that the imported nuts meet the quality of what we require for our domestically grown nuts?

Mr. BRADER. Well, there are varied interests. Certainly they have petitioned for and domestic interests in this industry have made clear their preference for a 1-percent tolerance for these four very serious defects.

Senator PACKWOOD. Do you agree with that?

Mr. BRADER. Well, I understand their position and I have sympathy for their position. On the other hand, the filbert consumption in the United States is not dominated by the domestic production, but it is supplied by both domestic and imported filberts. Some of the users have contended that this quality requirement is more than necessary.

Senator PACKWOOD. Say that again.

Mr. BRADER. Some of the users contend that the 2- or 1-percent tolerance is more stringent than necessary from their point of view.

Senator PACKWOOD. In other words, they are saying the 2 percent standard is perfectly fine with us from the standpoint of nuts.

Mr. BRADER. That's right.

Senator PACKWOOD. That the No. 1 standard is too high.

Mr. BRADER. That's right. So we have—yes. We understand and experience the petitions of both—of two poles in this area. The Department has, as I said, issued a regulation with a 2-percent minimum specified, and we had indicated that we were going to evaluate and review the impact of this on quality improvement, and trade, and consumption. The Secretary extended indefinitely that review on that evaluation period some time ago.

Senator PACKWOOD. Which side personally do you come down on? Do you think the 2-percent standard is perfectly adequate and the quality that comes in under that standard is perfectly adequate for domestic consumption?

Mr. BRADER. Well, sir, the 2-percent does not appear to inhibit imports to the degree that the U.S. market is shorted.

Senator PACKWOOD. Wait a minute. You lost me there.

Mr. BRADER. All right.

Senator PACKWOOD. The 2-percent standard does not inhibit imports——

Mr. BRADER. We have a 2-percent standard in effect at this time.

Senator PACKWOOD. Pardon?

Mr. BRADER. We have a 2-percent standard in effect at this time.

Senator PACKWOOD. And when you say that does not inhibit imports, you mean——

Mr. BRADER. It does not appear to unreasonably inhibit imports. Now some imports have not been able to meet that standard and are rejected at the port.

Senator PACKWOOD. That's exactly the issue here. What I am trying to do—and I'm trying to see if you agree—is to inhibit imports of inferior filberts. And I sense that you are saying, no, at 2 percent that's all right.

Mr. BRADER. At 2 percent, that's all right. But, sir, you asked me for my opinion. How it would be at 1 percent. And I really don't have any basis to evaluate that.

Senator PACKWOOD. There you are worried that we might not be able to import enough filberts, along with our domestic nuts, to meet the market at a 1-percent standard?

Mr. BRADER. There is uncertainty in that area. That's right, Senator. We have not tested. There is no way to test what would happen with a 1-percent standard.

Senator PACKWOOD. By and large, what is the quality of the nuts that Turkey exports to most of Europe? What standard do they meet?

Mr. BRADER. I can't answer that.

Mr. SINDELAR. We don't have a great amount of information on that. As far as we know, the bulk of them meet the European standards. West Germany is probably one of the world's foremost

exponents of cleanliness and health standards, and they do monitor imports rather closely.

Senator PACKWOOD. Isn't it true, basically, that Germany has, in essence, a No. 1 standard and Turkey is meeting the No. 1 standard, and they are dumping their low quality nuts here? I don't mean dumping in the technical trade sense of under cost. I shouldn't use that term. But are selling their low quality filberts here and sending high quality filberts to Germany which has a much higher standard for the imported nuts.

Mr. SINDELAR. I really can't put my finger on that one, but I imagine that they are sending—that there is a demand here for some of the lower priced filberts. That's the market that dictates what is needed.

Senator PACKWOOD. Can I sum up the administration's position this way? One, you are very opposed to the increase in the tariff.

Mr. SMITH. Absolutely, categorically.

Senator PACKWOOD. Two, you are even opposed to a change in the 2-percent standard to a 1-percent standard, even if that could be accomplished without an increase in the tariffs.

Mr. SMITH. Well, if I understand Mr. Brader, that's under review.

Senator PACKWOOD. By whom?

Mr. SMITH. The decision has not been made yet.

Senator PACKWOOD. Who is that under review by?

Mr. SMITH. That's under review by the Department of Agriculture, my organization and my superiors.

Senator PACKWOOD. So at the moment the administration has no position on the standards. They are studying that. They are opposed to the tariff increase.

Mr. BRADER. That's correct. That's my understanding.

Mr. SMITH. Certainly on the tariff proposal, and the other is under review.

Senator PACKWOOD. But as it's under review, it doesn't sound very optimistic to me because Mr. Brader is saying he is not sure whether we could meet our domestic needs with a 1-percent standard. You don't know. You are not sure.

Mr. SMITH. Well, I think there are two aspects to it. That's one. And the other one is what kind of market there is in the United States for filberts. There's another side to be heard on the marketing order, and that review process has to go forward.

Senator PACKWOOD. All right, gentlemen, I have no more questions. Thank you very much.

Senator PACKWOOD. Now could we take a panel—and I will say the same thing to the panel. If Senator Gorton comes, if you wouldn't mind just stepping aside. We will take a panel of Mr. Glenn Hansberry, the general manager of the Oregon Hazelnut Division of Blue Diamond; Mr. Robert Gelhar; and Mr. Rick Malone, accompanied by Terry Kay.

Gentlemen, I have had a chance to see your testimony. It was handed in ahead of time. And I wouldn't mind, in addition to that, if you want to comment on what the administration witnesses said.

Go right ahead, Mr. Hansberry.

STATEMENT OF GLENN HANSBERRY, GENERAL MANAGER, OREGON HAZELNUT DIVISION, BLUE DIAMOND, INC., SALEM, OR

Mr. HANSBERRY. Thank you, and good morning, Mr. Chairman.

I first would like to offer my written testimony for the record.

Senator PACKWOOD. Your testimony, and the testimony of all of the witnesses, will be in the record.

Mr. HANSBERRY. I would like, then, to just briefly comment about that testimony.

My name is Glenn Hansberry. I represent the Associated Oregon Hazelnut Industries Board of Directors. By way of introduction, may I introduce Mr. Rick Malone on my left, and representing the Filbert Growers Bargaining Association. I would also like to introduce Mr. Bob Gelhar on my right who is with the Oregon Filbert Commission and the Nut Growers Society of Oregon, Washington, and British Columbia. Also with us this morning, Mr. Chairman, is the attorney for the Associated Oregon Hazelnut Industries Board of Directors, Mr. Terry Kay.

Mr. Chairman, let me thank you very much for the honor and opportunity to testify before you today on this critical legislation to my industry. Let me quickly move through the formalities by saying that I am the president and chairman of the board of Associated Oregon Hazelnut Industries, affectionately referred to as AOHI. Board members are the representatives of the entire U.S. industries, comprised of processors and growers; made up of industry organizations, including Associated Nut Packers of Oregon, Filbert Growers Bargaining Association, the Oregon Filbert Commission, the Nut Growers Society of Oregon, Washington, and British Columbia. I also personally represent the Oregon Hazelnut Division of Blue Diamond, a principal handler of hazelnuts.

Since the organizations that I have mentioned, Mr. Chairman, comprise the entire U.S. production area, I believe and hope my comments will have great sway with your committee.

The economic plight of our industry has never been at greater risk of bankruptcy than it is today. Foreign countries are driving our prices down and seriously limiting our U.S. market growth because of their poor quality and subsidized grower activities.

The size of the Turkish crop that has developed with their grower subsidies throughout the many years are unfair competition. Turkey alone produces 70 percent of the world production and with subsidies to their growers, set the world prices. The U.S. Department of Agriculture is clearly violating the Agricultural Marketing Agreement Act of 1937. Section 8(e) of the act requires comparable grade standards for imports to domestics. The 2-percent standard they are currently using was written for imports; not domestic. The 2-percent standard should be a 1-percent standard. That is a very maximum tolerance that can be permitted on any consumable item called "hazelnuts."

The Department has taken the position that the GATT treaty of 1951 can't be changed. The tariff for filberts set out in that treaty was not correct in 1951 and it is still not correct today. Over the past 33 years, the playing field has become more uneven than ever because of the domestic price setters, subsidized competition, and decayed products being imported into this country.

In closing, may I personally thank you and thank you on behalf of the entire industry, Mr. Chairman, for your efforts in getting this study underway on the foreign subsidies and competition through the International Trade Commission. The industry is very grateful to you for that.

At this time I would like to turn the microphone over to Mr. Rick Malone, if I may, my friend and colleague.

Senator PACKWOOD. Before Mr. Malone talks, let me compliment you on the quality of your testimony and the preparation, and especially in having Terry Kay as your counsel. He has been a great help in preparing these hearings. And a great help in advising me on this subject. He's a credit to you.

Mr. HANSBERRY. I thank you, Mr. Chairman.

[The prepared statement of Mr. Hansberry follows:]

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UNITED STATES SENATE COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

TESTIMONY SUPPORTING S. 2429 BY THE

UNITED STATES HAZELNUT INDUSTRY

SEPTEMBER 14, 1984

Testimony provided by:

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MR. CHAIRMAN, let me thank you very much for the honor of the opportunity to testify before you today on your legislation which is so vital to my industry. Let me quickly move through the formalities by saying that I am the Chairman of the Board of the Associated Oregon Hazelnut Industries, Inc. (AOHI). The Board members of AOHI are the representatives for the entire U.S. industry, which is comprised of processors or handlers, and growers of hazelnuts.

Representing the handlers and growers on the AOHI Board are representatives of their individual associations, which include the Associated Nut Packers of Oregon, the Filbert Growers Bargaining Association, the Oregon Filbert Commission, and the Nut Growers Society of Oregon-Washington & British Columbia. With me today representing AOHI and these associations are Mr. Rick Malone, Mr. Bob Gelhar, and our AOHI counsel, Mr. Terrence Kay.

Individually, I also speak today as the General Manager for the Hazelnut Division of Blue Diamond, which is a principal handler of hazelnuts. I have 32 years of experience in the filbert or hazelnut business with these associations and these people in the Northwest. Since the AOHI Board speaks for the associations which comprise the entire domestic industry, I believe and hope our comments will have great sway with your Committee.

I. The U.S. Filbert/Hazelnut Industry.

The entire commercial production of hazelnuts in the U.S. occurs in the states of Oregon and Washington. Approximately 96% of the domestic crop is produced in Oregon, by approximately 800-1,000 small growers.

The principal handlers or processors of hazelnuts have an approximately $10,000,000 investment in plants and equipment, and an employment range throughout the packing season of 200-800 employees.

As Mr. Malone will describe more thoroughly during his testimony, the backbone of the hazelnut industry are the small businessmen and businesswomen with average orchard acreages of 20-100 acres throughout the States of Oregon and Washington.

There are currently about 20,000 acres of commercial hazelnut production in the Northwest. In addition, there are nearly 4,000 planted acres "on-line" which are not yet in commercial production. These are expected to be producing commercially throughout the balance of this decade, and to further increase the production of hazelnuts in this country.

In the late '70's and the early part of this decade, growers of filberts were making increased commitments to new plantings. Nursery stocks had more orders than supplies, and the outlook for the industry seemed strong. Unfortunately, the forces of unfair competition from abroad, poor quality and extremely low field prices for growers have reversed this trend in recent years. I will discuss this further in my testimony, but for now the outlook is bleak and headed downhill without corrective action to strengthen the U.S. market.

II. Our Domestic Filbert/Hazelnut Market.

Hazelnuts are generally described in two ways: "In-shell" and "shelled" or "kernels". The in-shell type are customarily sold during the holiday season from Thanksgiving to Christmas, and because of the size and quality of the in-shell nut in the U.S., we have begun to export hazelnuts to such countries as West Germany, Canada, and Central and South America.

The shelled or kernel industry is a year-round business, with the end uses for kernels including customers such as nut salters, bakers, and with the most recent growth to health food stores and vendors for "tablenut" sales.

Candy makers use hazelnuts in their candy boxes, but unlike other nuts sold in this country, there is no popular candy bar using filberts. We think that hazelnuts have not been used more commonly for these retail sales because there is not a source of reliable "quality" supply in this country, as you would find by contrast in Europe, where filberts are an extremely popular tablenut, candy, and bakery item.

The growth which we have seen in U.S. hazelnut sales has been due to the increased quality over the last several years. In other words, as the quality has improved, the market has improved. The market has improved because distributors and customers for hazelnuts have been willing to make increased marketing efforts when they have had increased quality of supply.

What is terribly discouraging, however, is the import volume of poor quality, "decayed" product which is imported and available in the U.S. because there is not a reasonable quality control standard by the Department of Agriculture. At a time when the U.S. industry has made an increased investment in hazelnut production, with an eye toward increased development of the market for hazelnuts in this country, we face poor quality, low priced hazelnuts being imported from abroad. This leaves us with some very serious issues which we bring to this Committee for resolution.

III. Critical Issues Facing the U.S. Industry.

As I mentioned earlier, our hazelnut industry is in bleak shape. We are facing poor quality, cheap imports, and seeing our efforts of a few years ago to increase demand disappearing on the horizon.

As to price, the following statistics show the losses which all of us in the industry have had to endure in the last five years:

Year	Grower Price
1979	47.5 cents per lb.
1980	57.6 cents per lb.
1981	39.3 cents per lb.
1982	34.0 cents per lb.
1983	30.0 cents per lb.

These prices are the cents per pound for growers, referred to as the "field price". Between 1980 and 1983 the price drop from nearly 58 cents per pound to 30 cents per pound is almost a 50% drop in grower revenue. Unfortunately, the situation is not that much better for the Fall 1984 crop we are about to harvest and process. Why have the hundreds of U.S. growers had to face these losses for their time and toil in their orchards these past few years? The answer is two-fold: Decayed quality and subsidized competition from abroad.

A. "Decayed" imports.

The U.S. Department of Agriculture (USDA) has adopted temporary quality regulations which apply to domestic and

imported hazelnuts, and require that not more than 1% of hazelnuts show the combined effects of "mold, rancidity or insect disease" and not more than an additional 1% show the defect of "decay". This combined 1% and 1% standard is what we refer as the 2% USDA quality standard.

To be blunt, this standard was adopted by USDA for the benefit of the hazelnut importers and the Government of Turkey. It is not a standard requested, benefitting, or warranted by the state of the U.S. industry and its top quality control. Moreover, as I will discuss later in my testimony, we believe it is a violation of the Agricultural Marketing Agreement Act of 1937, as amended, Section 8(e), for greater than a 1% total quality standard to be permitted for all four of the defects in hazelnuts I just mentioned, i.e. "decay, mold, rancidity or insect injury."

The facts of life for American hazelnut growers and those of us in the processing arm of the industry, are that cheap, decayed and unacceptable product is being imported and dumped into our marketplace. Our efforts to increase quality and provide a reliable source of good product for the development of a larger market in this country are being lost. The small businessmen and women who must face these losses, and the prospects for more in the future, are facing economic ruin. We are stymied and turn to this Committee to correct this deficiency in quality and subsidy control at our nation's borders.

B. Turkey: The dominant, subsidized price-setter.

Turkey produces 70% of the world crop of hazelnuts. Turkish growers are regulated by the government and receive government subsidies for their crop. Generally, the crop is purchased by the Turkish government cooperative, called "Fiskobirlik". The

price set by Turkey sets the world price for the other suppliers of hazelnuts, including Italy and Spain. U.S. production is approximately 3-4% of the world crop, and as a result, the U.S. supply has little bearing on the price in the U.S. With 95% of Turkish production directed for export, with various grading standards for the purchasing countries, Turkey has entered into a practice of sending its lower quality, lower priced hazelnuts to the U.S. In fact, USDA specifically added the term "decay" to the U.S. quality standard to allow Turkish imports to the U.S. to be continued at the poor quality level we are protesting.

The Congressional Research Service, in reviewing the foreign attache reports for Turkey and Italy, has determined that the governments of both countries subsidize the hazelnut industry. The subsidy is an amount between the full price set in Turkey and the amount rebated from the European economic community to the Italian growers or exporters. In the face of this subsidized competition from abroad, it is important to recognize the U.S. growers and processors receive no subsidies, no governmental financial aid, no specially tailored tax incentives, no quotas, no price subsidies, and no unnegotiated tariff aid. Yet this stream of decayed and subsidized imports is what the small American grower is fighting, without an opportunity to survive for much longer.

Certainly it is because of this specter of foreign subsidies that you, Mr. Chairman, and members of this Committee, passed a resolution for a Section 322 investigation by the International Trade Commission. We fervently believe and trust the conclusions reached by the ITC during its investigation will confirm the subsidies and the incredibly disproportionate competitive

advantage which the U.S. grower faces. We thank you again and look forward to the results of that investigation just as soon as it can be completed.

Let me now turn to the need for the 1% quality standard endorsed by this important legislation, S. 2429.

V. The U.S. Needs a 1% Hazelnut Quality Standard.

The U.S. industry has always adhered to top quality practices in its cultivation, harvesting and processing. In requesting a 1% standard, it is not that the U.S. seeks a competitive advantage over Turkey and its U.S. importers. The fact is simply that the U.S. growers and processors believe a source of quality product in our market place is the only way to expand the domestic current market. If it were not for quality controls over other domestic nuts and commodities, those markets would not have grown in the past, either. We can meet a 1% standard, and in fact meet most often a 1/2% standard because we make the effort and believe the American consumer deserves quality product. I turn to the sample provided to the Committee of the 2% versus 1% amounts, and ask that we not dwell on the statistics, the definitions and the legal principles we are debating. Simply ask what the response would be if the American public were presented these two samples of diseased, decayed, rotten, putrid hazelnuts. Of course, they won't tolerate 2% in their purchases. Frankly, I'd be surprised if they would even tolerate 1%.

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We cannot compromise quality regulation over hazelnuts. That is the reason that Congress chose to amend the Agricultural Marketing Act of 1937 to include filberts/hazelnuts in Section 8(e) to require the following:

> "Whenever the Secretary of Agriculture finds that the application of the restrictions under a marketing order to an imported commodity is not practicable because of variations in characteristics between the domestic and imported commodity, he shall establish with respect to the imported commodity, . . . such grade, size, quality and maturity restrictions . . . as he finds will be equivalent or comparable to those imposed under the domestic commodity under such order." (emphasis added)

Based on this requirement of Federal law, and upon a thorough examination of the quality issues over hazelnut processing, and with an invitation to the importers to participate, the Filbert Control Board recommended to the Secretary of Agriculture that domestic shelled filbert standards be modified to 1%. Following this the Department of Agriculture proposed an amendment to the import standards on April 9, 1980, in order that the import standards and the domestic standards would be regulated under the marketing order at the 1% quality standard for the serious defects in this product.

In its Final Impact Statement, of September 8, 1980, the Department of Agriculture found there was no evidence that Turkish hazelnuts were more prone to "decay", and as a consequence, Turkish hazelnuts could meet the higher 1% standard. With good reason and a solid record at this point, the Department determined on September 25, 1980, that the proposed amendment for a 1% quality standard was necessary and would be adopted.

Furthermore, the Department determined that "decay" is a type of serious defect which should be classified as "serious damage" or "very serious damage". No adverse impact was found for either American consumers or the exporting country of Turkey. Clearly these conclusions by the Department of Agriculture were based on the Economic Commission for Europe (ECE) and Turkish quality standards, which include defect standards or tolerances that are at least as strict or more strict than the 1% standard being proposed for adoption by the Department.

However, based on a procedural concern, not a substantive concern on the record, the Department issued a Stay Order on the 1% quality regulation due to a petition submitted by the Association of Food Industries, Inc. (AFI), the association representing importers. Following a further review by the Department, the temporary 2% standard I have previously described has remained in effect, subject to an unplanned, unperiodic, unscheduled review at the mere discretion of the Department. The requests from Congress have been repeated and repeated over the past two years for a 1% standard to be adopted based on the Record before the Department. The Department has refused to further substantiate its position and appears unwilling to increase the standard. It is my firm belief, based on my involvement in the legislation which included filberts in Section 8(e) of the Act, the administrative proceeding which has gone on before the Department, and the record which has been established since the 2% standard was in effect, that the Department is violating in a capricious and arbitrary manner the Act it is required to implement. Let me explain my reasons for this claim.

A. The 2% standard was proposed by the importers for Turkey.

AFD suggested the 2% standard during the procedural review of our prior record. The domestic industry has never followed a 2% standard, and never supported a 2% standard. Without a justification by the Department as to why the 1% standard is not "practicable", the Department has arbitrarily decided to give Turkey and the importers a break, rather than administer comparable standards for domestic and imported product under the Act.

B. This compromise in quality is damaging the industry.

Because these imports are so defective and decayed, our entire effort to establish a reliable source of quality produce in the U.S. is being undermined. How can we go to the candy bar manufacturers, the bakers, and the other vendors who could build a strong hazelnut market in this country when this kind of rotten product is readily available in this country?

C. The 2% standard is not justified by the Department.

Comments by the hazelnut importers imply that this legislation would eliminate imports from the market place. Because they maintain the 1% standard is unattainable, imports would dry up. Moreover, this lenient standard for importers is necessary because of particular qualities of the Turkish hazelnut. In fact, this legislation does not intend nor would have the effect of eliminating imports. We need a few thousand tons of quality hazelnut kernels to be supplied to the U.S. In fact, as the market grows we need more and more quality imports to build our market. The very fact that the current imports under the 2%

standard have continued means that at least 98% of the imported nuts to this country are of 100% quality with no serious defects. Eliminating the additional 1% of the 2% to meet this new standard is not an unattainable burden, nor one with which the Turkish exporters are unfamiliar. The standards they follow and must have followed to develop their hazelnut exports to Europe, in view of the Turkish standards and the ECE standards show that high quality is available. It is simply a matter of requiring quality imports, too, for the U.S. for us to receive those quality imports.

D. We must include decay in our strictest tolerance classification.

"Decay" is not a word we should pass over lightly in this hearing. The product I have shown this Committee is putrid. You would not eat it. We should not ask the American consumers to eat it. It should not be hidden in bakery products, glossed over with sugar and glazing. It should not be made available when we can reasonably control the entry of decayed product in this country. The extent of potential danger is not fully studied, and in view of that we should err on the side of caution by including decay with "mold, rancidity and insect injury" at a maximum 1% defect level. Other tree nut marketing orders have included decay in the strictest defect classification, and we should mandate that requirement. The 50 cent per pound tariff imposed on product which does not comply with the 1% standard is not expected to be paid, and will not be paid. The point of this legislation on quality before the Committee is to insure the 1% standard is followed.

E. Top quality standards abroad encourage dumping of decayed product in the U.S.

The Economic Commission for Europe (ECE) standards, which are used by hazelnut importers for the Federal Republic of Germany, and the Turkish standards are in part as strict or more strict than the 2% standard in the U.S. Due to these foreign market standards we can expect decayed product to be dumped in the U.S. Clearly the American consumer cannot distinguish between imported and domestic product, and has a right to expect quality products when it is generally available elsewhere. And, I must reiterate, how can we expect to develop a strong U.S. industry without a reliable source of quality product? We must have this 1% standard.

Let me turn now to the standard tariff increase proposed in S. 2429.

V. The Current 8 Cent Per Pound Hazelnut Tariff Should Be Increased To 16 Cents Per Pound.

The economic plight of the U.S. grower warrants an increase in the tariff to 16 cents. Because the U.S. grower is a price taker, not a pricemaker, in this market place, we suffer the price setting of Turkey. Add the subsidies to the equation and the U.S. grower is imperiled.

If we were to take the current 8 cent per pound tariff on hazelnuts and adjust that for inflation since its adoption, it would be increased to roughly 32 cents per pound. Since this 8 cent tariff was adopted, prices have steadily risen, and the ratio effect of tariff to price which was originally determined to be meritorious, has been lost in a sea of inflation. The argument could be made that everyone in the market place suffers

roughly equally the effects of inflation, but the hazelnut market does not. We have to vie with the comparability or substitution effects of other domestic nuts on our hazelnut market. And in fact, the nuts with which we compete in various aspects of the market are twice the tariff which hazelnuts have. Walnuts have a 15 cent per pound tariff, and almonds are at 16.5 cents per pound. If prices are comparable and they have been over the years, hazelnuts have suffered a disproportionate loss on the economic playing field by having one-half the tariff of these other nuts.

The increase in this tariff will provide an offset for the subsidies with which we must compete from abroad. This tariff increase will also provide us the lead time to develop and grow with productive investments in new orchards for an expanded U.S. market.

VII. Rebuttal to USDA Comments of June 25, 1984 on S. 2429.

The U.S. Department of Agriculture has provided written comments to this Committee opposing this legislation. The thrust of its comments are that the 8 cent tariff was the result of a 1951 trade negotiation which was and apparently remains adequate.

I find it incredibly naive that the 33 years which have passed since the 1951 negotiation, even if it were correct then, which I doubt, would be the basis for opposing any increase in the tariff or adjustment in the quality standard now. For instance, in 1951 the field price for hazelnuts was around 17.5 cents per pound, versus almost 30 cents per pound in 1983. And, the competitive conditions have changed drastically. U.S.

growers have increased quality control and fostered the development of a growing U.S. market into which subsidized Turkish and Italian imports have stymied our expansion and forced losses upon U.S. growers. These are hardly the conditions of 1951 which produced a negotiated and supposedly "level playing field" on which we are to compete as the Department suggests.

The Department indicates that Turkey would be entitled to compensation under the General Agreement on Tariffs and Trade (GATT) but has not indicated to this Committee what the injury is which Turkey would suffer. Let me distinguish the two features of the bill. As to quality, the 50 cent per pound tariff is expected to be neither levied nor paid, since imports will meet the 1% standard. As to the tariff increase to 16 cents, that amount of injury has yet to even be explained by the Department of Agriculture. I will only mention in passing that it is extremely embarrassing and disappointing to have our Department of Agriculture representing the woes of presumed injury by the exporters in Turkey. We had hoped our Department of Agriculture would have been here supporting the woes of the U.S. industry, as we thought it was required to do.

The Department also seems to imply that it is "likely" that agricultural retaliation in the trade area will occur against the U.S. if this bill is adopted. We hope the Committee will cross-examine the Department extensively on this bare unsubstantiated assertion. The impact of the bill, we believe, is strongly favorable. Once quality is increased and Turkey ships quality product to the U.S., the market for these nuts will increase in this country to the benefit of both Turkey and the U.S. growers. Why they would attempt agricultural retaliation is worthy of extensive inquiry, on which we have heard little from the Department.

The conclusion reached by the Department in its one-page letter is that the "probable cost to an export-oriented U.S. agriculture would, in view of the Department of Agriculture, outweigh any benefits that might be gained from greater protection against imports." Again, because there is no substantiation, by facts or comparison, from the Department, it is unclear how in the world the Department has come to this conclusion. In the face of no proof and our assertion that this bill would strengthen a small and, hopefully, growing industry, we disagree strongly with this conclusion.

Finally, in commenting on the Department's written testimony to date before this Committee, let me explain the deep frustration which our little and beleaguered industry in the Northwest has with the Department. Today we see the Department of Agriculture appearing before the United States Senate Committee on Finance. It says that the tariff negotiated in 1951 cannot be changed and was apparently correct in 1951. Its hands are tied. Yet, since 1951 as far as I can recall and certainly in the last few years, the Department has done NONE OF THE FOLLOWING:

1. Attemped to negotiate a better quality standard.

2. Attempted to investigate and eliminate foreign subsidies of hazelnuts.

3. Attempted to increase marketing efforts for quality Turkish product in the U.S., as one of Turkey's new markets.

4. Asked for an ITC or other administrative review of the 1951 tariff.

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5. Asked for a review of the quality of imports before we sought and obtained Congressional action.

6. Adopted a standard argued for by importers for the Turkish growers, against the desires of the domestic industry.

7. To our knowledge, never entered into negotiations, settlements, or even made a simple plea for quality control or elimination of subsidies from the government of Turkey.

As a result, Mr. Chairman, we appear today as a threatened, staggering, but fighting industry which feels it does not have the Department of Agriculture trying to "level the playing field" which this Administration has indicated it wants to do in the trade area. We need a level playing field, and we need it through your legislation if we are to succeed and to survive.

STATEMENT OF RICK MALONE, MANAGER, FILBERT GROWERS BARGAINING ASSOCIATION, AMITY, OR

Senator PACKWOOD. Mr. Malone.

Mr. MALONE. Thank you, Mr. Chairman.

I appear before you today as manager of the Filbert Growers Bargaining Association, and also as a grower of hazelnuts in the State of Oregon.

On behalf of all the growers in the State of Oregon and Washington, I would like to thank you for introducing this much needed legislation.

My testimony this morning will, first, try to let you know what the U.S. hazelnut industry really represents. It represents approximately 1,000 small business men and women who are in the business of producing hazelnuts in the United States. In addition to these people, there are another 2,500 families, Mr. Chairman, who derive either all or part of their livelihood from the production of these hazelnuts. Every one of these families are in the process of being stripped of their livelihood.

To illustrate this to you more clearly, I think we need to look back and see where our industry was in 1980. In 1980, we were receiving $0.60 a pound for our deliveries, and that was at a time when the cost of production was pegged at $0.45½ a pound, according to a study done by the Oregon State University Extension Service. Since that time we have come downward to the point where in 1984 or 1983, we received exactly half that amount or $0.30 a pound for our deliveries. And we all know what has happened to the cost of production during that period of time.

In other words, over the last 3 years, I think it is fair to say that not one single producer in the State of Oregon has avoided losing money on the production of hazelnuts.

Why? It is because Turkey is the dominant force in the production of hazelnuts in the world, and Turkey sets the world price. Over 70 percent of the world production comes from that country, and it is inconceivable to me that with this huge production between 3,000 and 5,000 tons of hazelnut kernels could not be found to supply the U.S. market that does not contain decayed and/or rotten products.

Senator PACKWOOD. It's clear it could be found, it could be done. They do it in Germany. I mean this is not like it is impossible to accomplish.

Mr. MALONE. That is correct.

As a matter of fact, a review of the shipments during the marketing year 1982 and 1983 illustrated that 85 percent of these shipments, even at a 2-percent standard, exceeded a 1.5-percent standard. As a result of that, the Department of Agriculture submitted a request to the OMB that we establish a 1.5-percent standard. The Office of Management and Budget approved that. They returned it to the Department and the Department did absolutely nothing.

The Oregon industry felt that this would have been an appropriate move at that time as we phased into our much needed 1 percent standard. But lack of action on the part of the Department left us saddled with an unfair temporary 2-percent standard.

The opposition to the domestic industry's request for a 1-percent standard is being weighed by the importers. And their contentions, Mr. Chairman, are absolutely wrong. We do not want to limit imports. We merely want to ensure that the imported hazelnuts that reach the trade here in the United States are of edible quality. And it would be relatively simple for Turkey and Italy to both meet that 1-percent standard.

Senator PACKWOOD. I wonder if you might address yourself to the issue raised by the administration that 2 percent is a perfectly adequate standard.

Mr. MALONE. Mr. Chairman, what we want to ensure here in the United States is that the hazelnuts that reach this trade are of high quality. We have had a standard that has inhibited growth in this market, and we need to expand the market. The U.S. consumer is a very quality conscious consumer and we need to expand it.

Senator PACKWOOD. As a matter of fact, you are not asking for anything different than what we did for the beef producers years ago when they were complaining about imports of inferior quality Australian beef. The beef producers wanted a tariff or a quota. We didn't give them that. But what we insisted upon was that the beef that was brought in had to meet the same standards that U.S. producers were meeting here. And we gave them that. And that's all you are asking.

Mr. MALONE. That's all we are asking.

And I would like to leave you in closing with just two thoughts. And one is that without passage of this bill, the domestic industry will stagnate at a minimum, and conceivably perish. And, also, I would like to make the statement that agricultural policy in the United States should be written for U.S. agriculture and not for importers and not for Turkey. And with that, I would like to turn the floor over to Mr. Bob Gelhar, my colleague and good friend.

[The prepared written statement of Mr. Malone follows:]

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TESTIMONY SUPPORTING S. 2429 BY THE

UNITED STATES HAZELNUT INDUSTRY

SEPTEMBER 14, 1984

Testimony provided by:

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MR. CHAIRMAN,

It is also a great pleasure and privilege for me to testify before you today on this legislation, S. 2429, which is so critical to my life as a grower and manager of the Growers Association. I am appearing today before you as the Manager of the Filbert Growers Bargaining Association, a Board Member of Associated Oregon Hazelnut Industries, and individually as a small businessman and grower of hazelnuts.

The Filbert Growers Bargaining Association (FGBA) bargains for the conditions, terms and prices for the growers with the processors. Among the Association's chief concerns is the area of quality and specifically the quality of imports which we have been fighting for years. In this effort we are united with the processors and all those persons with whom I am familiar in the industry.

As a Board Member of Associated Oregon Hazelnut Industries, which represents the U.S. hazelnut industry, I represent the growers' concerns on which you are holding this Hearing today. I hope to testify today with the personal experience of someone living and fighting for economic survival.

I. The U.S. Filbert/Hazelnut Growers.

As you are aware, there are nearly 800-1,000 growers spread throughout the states of Oregon and Washington, which is the bedrock for the U.S. hazelnut production. These hazelnut growers or orchardists are really America's true small businessmen and businesswomen. The average size of the grower's orchard is 25-100 acres. They employ a few persons, often members of the family, and in many instances the business has been worked by more than one generation in the family.

These small growers have made investments in their orchards in the past for planting, cultivation, land acquisition, and care for the roughly 6-8 years it takes to bring an orchard into production and around 8-10 years for good solid production to develop in an orchard.

To make an investment in the hazelnut business, one must decide to invest funds with no return on that investment for the 6-10 years until commercial production is reached. As a result, what we have seen in the Northwest are individuals who made a projection about the strength of growth in the U.S. hazelnut market, and planted accordingly. Unfortunately, with the losses growers are experiencing, the negative feelings they have about the regulation of quality control by the Department of Agriculture, and the discovery of foreign subsidies for imports, the hazelnut growers view the situation very grimly. Let me step back and explain what the optimism of the past years looked like.

In the late '70's, at least, the hazelnut nurseries in Oregon were booked with demands they couldn't even meet for new plantings. There was an annual increase in hazelnut orchards of approximately 1,000 acres per year. Hazelnut production was expected to increase and increase accordingly, as the market would increase for hazelnuts in this country. The promise of quality regulation under the Agricultural Marketing Agreement Act of 1937, Section 8(e), on the quality of imports, was a promise for a bright future. On September 25, 1980, the Department of Agriculture found that a proposed amendment for the 1% standard should be proposed.

With the growing concern by some row crop farmers and grass seed growers in the Willamette Valley, and a shift of some of these processing plants to other parts of the country, it seemed that the propects for hazelnut plantings in Oregon would be a strong source of new agricultural growth. However, in the recent years we have not seen this because of the problems I have already outlined.

At this time, there are roughly 20,000 acres of nut bearing hazelnut trees throughout the Northwest, in Oregon and Washington. There are about an additional 6,000 acres in plantings which are on-line and will be producing hazelnuts during the rest of this decade. Our improved fertilization and care programs, as well as our good quality strains for seedlings and increased processing capabilities would have meant the promise for increased growth in our industry and the U.S. market.

What we have seen occur are the price declines over the last few years to around 50% of what prices were in the end of the '70's and early '80's. What we have seen are increased low quality imports to the U.S. when we have been trumpeting and fighting for increased quality standards. In 1979, the Oregon State University Extension Service estimated that the cost of production for U.S. growers was 45.5 cents per pound for an average yield.

The total investment in orchards and acreage approaches $100,000,000, with peak employment of over 2,500 individuals. The old groves which average 100 trees per acre have seen the addition of new plantings with around 150 trees per acre which would increase our yields and our productivity.

This small agricultural industry has moved swiftly over the past several years to improve marketing conditions and give greater attention to the quality of its product.

In the midst of these concerns, the industry is approaching its annual harvest next month, October. And yet, this appears to be another year of losses, dismay and gloomy predictions for the growth we have all worked so hard to achieve. We cannot endure

much longer before people begin to pull out their orchards. The Oregon hazelnut orchardist has made a substantial personal investment in this crop which can't be salvaged much longer.

Our home state of Oregon is extremely well-suited for increased plantings and growth. The land is available for new plantings. The environmental factors favoring hazelnut production are expected to remain constant. But, without curtailing the decayed imports, subsidized competition from abroad, and restoring that light of confidence on the horizon, I don't know that this Country's hazelnut growers will make it.

II. The Economic Plight Facing the Growers.

As a small grower, and there really are nothing but small growers, we bargain for price with the principal processors and handlers. But what occurs first in the world market, is that Turkey sets the price. We as growers are basically powerless.

Turkey produces 70% of the world crop, followed by Italy with 22%, Spain with 4%, and the United States with 3-4% of the crop.

The U.S. domestic production of hazelnuts really has no effect on the determination of price worldwide. Take the crop year 1983, in which we had a low production of around 7,000 tons, and yet the price was still approaching a recent historical low of 30 cents per pound.

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Yet, in the face of this small supply, our price was even smaller. The reason is that Turkey sets the price worldwide. All the talk this Committee will hear about supply and demand, and prices being set according to free market forces, do really not apply to the plight faced by the U.S. growers.

Based on the price declines of the past several years, which Mr. Hansberry has outlined in his testimony, the growers have lived through significant operating losses and are expecting a potential loss on their future investments in orchards and equipment. It does not take an economist to recognize that prices from 1979-83 have dumped the growers in the bottom of the price barrell, and I don't expect that 1984 will be that much different. In 1979 and 1980 we had field prices of 47.5 and 57.6 cents per pound. In 1983 our price, as I have mentioned, was 30 cents, and give or take a few cents it will not be much different this year.

The small businessmen and women, many times family operations, which are the hazelnut growers of this country, cannot face losses like this for very long before cutting their orchards and turning to production of something else. Once an orchard which has been in commercial production is lost, the reinvestment may never occur, and if it does it will take years for commercial production to be reached on that acreage again.

In the face of this economic misery, I have to tell you what the small businessmen and businesswomen see down the road. The perception of these people and where their businesses are headed is as important as many of the statistics that you will hear during this hearing. The growers see an increased emphasis on the part of Turkey in exporting its substandard, decayed, rotten product to this country. The growers see their efforts to

establish a strong market being steadily eroded by the existence of these putrid products in this country. The growers see a U.S. Department of Agriculture which seems more and more willing to backburner a review of our quality standards and making no effort to try and help our fledgling industry. Added to all of these concerns over quality of product we see subsidized imports which are driving us out of business.

You have been thanked before, Senator Packwood, but let me add my hearty thanks for your Resolution for a Section 322 investigation by the International Trade Commission over these subsidized imports. The reports you have received in the past from the Congressional Research Service (CRS), and the USDA Attache reports which have indicated subsidies and government assistance, are a strong basis for the desperate plea we are making to this Committee to "level the playing field" in the international hazelnut market place.

III. Unfair Competition From Abroad.

Quality and subsidies.

From the standpoint of the growers, let me analyze for this Committee the problems which poor quality regulation and subsidized imports are causing.

A. Defective quality imports.

The U.S. growers, with the assistance of the packers, supply product with probably 1/2 of 1% of the defects you have heard about this morning. Prior to our quality battle with the government of Turkey, which appears to be represented by the

importers in New York, we never heard of the serious defect called "decay". You have seen the sample of decayed product we have provided to this Committee. I, too, would be amazed if there were consumers in this country who were willing to tolerate even 1%, let alone twice that or 2% of this rotten product. Let me just illustrate what we are fighting about. The American Heritage Dictionary, New College Edition, defines decay as:

> "To decompose; rot . . . the destruction or decomposition of organic matter as a result of bacterial or fungal action; rot."

And the synonyms cited are

> "Rot, putrefy, spoil, crumble, molder, disintegrate, decompose."

Certainly this definition of the vile quality of "decay" is what prompted the USDA to find that in most tree nut standards, decay should be classified as a type of "serious damage", and originally that the 1% quality standard would not be too severe a restriction with an adverse impact on U.S. consumers or Turkey.

In addition, the Department reviewed the quality standards which the Economic Commission for Europe (ECE) has used for hazelnut importers, and in particular the Federal Republic of Germany, finding that strict or stricter standards for quality control were being dealt with by Turkey. Also considered were the Turkish standards for quality control, which include a standard of at least as strict as we have proposed.

The 2% standard on the four defects of "mold, rancidity, insect injury and decay" was put in place temporarily. We understand the Department made a commitment to Senator Hatfield to review the standard for approximately a year and see how imports were being affected. Our understanding in conversations

we have had with officials at the Office of Management and Budget (OMB) and the Department, is that the Department proposed at least a partially enhanced quality standard of 1.5% sometime in 1983. This internal proposal was submitted to OMB for its review because OMB had been the principal opponent of the 1% standard within the Administration.

However, we understand from direct conversations with OMB officials that OMB approved the 1.5% quality standard which had been submitted by the Department. This was based in part on the fact that during the first year or so of the 2% standard, approximately 85% of the imports to this country met the 1.5% standard. Hence, it appeared the 1.5% standard was obtainable with very little, if any, significant disruption of the current import market.

To our amazement and sheer dismay, we were told without explanation last year that the 1.5% proposed standard was being withdrawn, and there would be no change in 2% standard for an indefinite period of time. To this date, we do not understand why the 1.5% standard was not adopted as an enhanced interim quality standard, or why there was not a continuing review of the 1% quality standard. In fact, all I can report as a grower in Oregon, is that the dissatisfaction with the Department's handling of this issue leads us to believe the shots are being called by Turkey and the middlemen or importers in New York. Frankly, we as an industry feel unrepresented in having to fight our own Department of Agriculture which has made its alliances elsewhere.

B. Tariff Increase.

Let me add briefly to the statements made by Mr. Hansberry already on this important issue. Mr. Hansberry cited the comparability of the hazelnut tariff with that for walnuts and almonds, the need for indexing of our tariff for the effects of inflation, and the need to establish a tariff more in line with the current competitive situation so growers have the economic incentives to develop the U.S. market further.

It doesn't seem right to me that the Department should oppose us in seeking a tariff increase based on the fact that in 1951 this 8 cent tariff was negotiated. On whatever basis it was negotiated, it is obvious to any casual observer that the economics have drastically changed, and the status quo is no longer. Furthermore, I have little patience with persons who oppose us when they have done nothing whatsoever to try and aid us in our time of need. The ITC investigation will hopefully confirm the subsidies which foreign growers receive and we have to fight in our country. Now let me turn to a rebuttal of the arguments which have been made to this Committee by the importers.

IV. Rebuttal to Importers (Association of Food Industries, Inc.)

First, I hope this Committee will ask, who are the importers? To me as a grower and someone participating in the U.S. production of hazelnuts, the importers are persons principally in New York, who are cutting a margin as middlemen on the import of decayed, rotten, subsidized product which is running me out of business.

These are apparently a few individuals, who provide no additional productive activity in the U.S. hazelnut industry. The importers have appeared extensively in the record before the Department opposing the industry's modest 1% quality standard, and frankly won for now an interim 2% standard.

Their comments to date for this Committee are contained in a July 17, 1984, letter which I find misleading.

A. Importers will not be substantially and unfairly damaged.

The importers claim severe damage if S. 2429 were enacted. It would appear they have misinterpreted the thrust of this legislation. The 50 cent per pound tariff is not intended to be a revenue producer, but rather a way to compel the legitimate 1% quality standard for the consumers and retailers in this country. The 8 cent per pound tariff increase would be a partial offset for the subsidies foreign growers receive, and provide a more level playing field in this country for competition and sales of hazelnuts.

B. The importers claim the 1% standard is "aesthetic".

This argument is laughable. To claim that an additional 1%, resulting in the 2% standard they desire, of decayed product is merely an aesthetic approach to quality regulation shows how out-of-tune with the market they are. Again, without a steady, reliable source of quality product in this country, the market will not expand further. We are not talking about aesthetics, we are talking about legitimate quality and growth.

C. The 1% quality standard is the national, not Oregon, standard.

The importers would like this Committee to believe that the 1% quality standard is one designed by a State and attempted to be foisted on the Federal government. Due to the unique situation in which 97% of the Northwest hazelnut crop is grown in Oregon, the 1% quality standard referred to has been known as the Oregon standard, and was initially proposed for adoption by the U.S. Department of Agriculture. In that sense it is referenced by name as the Oregon standard, but clearly had been proposed by the Department as the national standard. The importers also argue that the legislation would be unconstitutional, which is simply overreaching and untrue. The national standard embodied in this legislation would not be an abdication by the Federal government of its regulatory authority to the State of Oregon.

D. Turkey does have quality processing equipment.

The importers have tried to paint a picture of a poor peasant producing hazelnuts for sale to the industrialized countries. They would like you to believe that the handpicked filberts are all dried in the sun and have natural qualities which are unique. This is untrue. I have visited Turkey and seen some of the most automated processing and sorting equipment available today. It is a matter of commitment to quality, not ability to meet quality, and Turkey has that ability. Clearly when they can meet a 2% quality standard, and 85% of their previous year imports met a 1.5% standard, they can satisfy a 1% standard.

E. A 1% quality standard should not be a violation of GATT.

The importers raise the spectre of a violation of the GATT over quality regulation. Previously, the Department, in its impact statements during a review of the quality standards, found that decay is a "serious injury". Looking at these samples provided to the Committee today, it is clear that we are talking about a legitimate item for regulation in the market place. As a grower who is familiar with what consumers like, and the quality they deserve, I cannot imagine anything more than sharpened lawyers' pencils finding violations of GATT in comparing a 2% quality standard to a 1% quality standard. I don't begrudge the lawyers their sharpened pencils, but I do believe this country has a right and an ability to control quality.

F. The importers oppose U.S. policy.

The concluding threat implied by the importers is that Turkey and Italy are valuable NATO allies of the United States and this legislation discriminates against them. First, based on the testimony I have given, I don't believe this legislation discriminates whatsoever. Secondly, I don't believe this Association should suggest by this comment that the beleaguered hazelnut industry of this country should be the whipping boy for some unsubstantiated foreign policy concern. U.S. agricultural policy should be based on U.S. agricultural needs and sound reasoning. The plight of the American grower, the needs for quality and for an even playing field, call for this legislation to be adopted.

I appreciate the chance to testify before you today, and hope for swift passage of this vital bill.

STATEMENT OF ROBERT GELHAR, SECRETARY, OREGON FILBERT COMMISSION, AND SECRETARY, ASSOCIATED OREGON HAZELNUT INDUSTRIES, INC., TIGARD, OR

Senator PACKWOOD. Mr. Gelhar.

Mr. GELHAR. Mr. Chairman, I would like to add my thanks to those already expressed by my colleagues for all of the help that you have provided for our industry, and I would like to offer my written remarks for the record. I would like to summarize them briefly now, if I might.

Senator PACKWOOD. Yes, sir.

Mr. GELHAR. Parity relates to purchasing power. When a commodity sells at parity, it sells at the purchasing power it's sold at during a base period. The U.S. grower price for filberts has been as high as 80 percent of parity only once during the past 10 years. And it was only 36 percent of parity last year. The average over the past 10 years is 64 percent, the lowest of any domestic tree nut.

The most recent USDA statistics show that we consume in the United States only 5 pounds of hazelnuts for every 100 persons. We consume 11 times that many almonds, 11 times that many walnuts, and 8 times that many pecans. The Germans consume 43 times as many hazelnuts as we do.

There is an enormous potential market for hazelnuts in this country. We haven't tapped the U.S. market because we haven't impressed users that a quantity of quality product is available. It's not the price. Hazelnut kernels historically sell at less than competing tree nuts. Potential buyers tell me that it is quality pure and simple. They want consistent quality, whether it's domestic or imported.

Why can't we import quality filberts? Inspection statistics I see show that over half of the products received can meet a 1-percent standard. That's over half of the product that has been received in the last 15 months. Over half of it has met the 1-percent standard. The very worst has been 4 and 5 percent. That means that 95 percent of the worst lots are good nuts.

Turkey produces 165,000 tons of kernels a year. And if 5 percent of those are bad, it still leaves 156,000 tons of product that they could ship that are good product. It appears to me, then, that the problem is not one of inability to make grade, but rather one of unwillingness to make grade.

Why can't Turkey sell its huge crop each year like other tree nut industries appear to do? Sales of imports in the United States have not increased over the years. And Turkey continues to produce far more product that it can sell in its existing markets. The Oregon industry is convinced that filbert consumption will continue to remain in the doldrums as long as we continue to offer inferior product.

The U.S. almond, walnut, and pecan industries, in each case, represent well over 50 percent of their world industries. Because they represent large and politically powerful U.S. industries, they have been able to influence tariff legislation, and all have existing rates that are higher than filbert rates. We have prepared detailed schedules that were previously submitted to the committee, which, in our opinion, adequately illustrate that there is no defensible

reason for different tariff rates for almonds, walnuts, or hazelnut kernels, and that the difference appears to exist only because of political reasons.

Finally, I would like to make a few comments concerning the information submitted by General Foods in opposition to S. 2429. General Foods notes in its letter of July 17 that it purchases 800 metric tons of filberts each year. This based on USDA import statistics represents around one-third of the total imported. They further note that most of the filberts that they use are ground into paste and that they do not use domestic filberts because they are not suited for such use due to their low oil content. Their testimony suggests that it is the decay present in the nuts that is responsible for the unique flavor of their paste. I find it very hard to believe that a company as large and as well respected as General Foods would ever make such a statement. If it is true, maybe the ingredient label should comment on the percentage of decayed product included. Evidently, decay doesn't sound like a major defect to General Foods, but my dictionary uses words like "decomposed," "rotted," "putrified," and "spoiled" to describe it.

General Foods suggests that to impose a duty surcharge would be unfair. The Oregon industry is of the opinion that such a charge should never have to be paid.

Senator PACKWOOD. Let me ask you a question. Is their contention right about the oil quality of the nut being produced by decay?

Mr. GELHAR. I believe that some of the varieties that are imported from Turkey have a higher oil content.

Senator PACKWOOD. Is that because of decay?

Mr. KAY. Senator, if I might answer that. The Department, in its impact study on these regulations, came to the conclusion in 1980 that "even if Turkish filberts have a higher oil content than domestic variations, there is no reason to suspect they are more susceptible to decay."

Senator PACKWOOD. Thank you.

Mr. GELHAR. At this time I would also like to offer for the record two letters endorsing this legislation. One is from Gov. Victor Atiyeh of Oregon, and the other is from Director Leonard Kunzman of the State department of agriculture in Oregon.

Senator PACKWOOD. Thank you.

[The prepared statement and the letter from Mr. Gelhar follow:]

UNITED STATES SENATE COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

TESTIMONY SUPPORTING S. 2429 BY THE

UNITED STATES HAZELNUT INDUSTRY

SEPTEMBER 14, 1984

Testimony provided by:

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MR. CHAIRMAN,

I am pleased to be able to appear before you today on behalf of the United States hazelnut industry, and to add my comments with those of my colleagues, Mr. Hansberry and Mr. Malone, in support of S. 2429. My comments are submitted in my capacity as Executive Secretary of the Oregon Filbert Commission, Secretary of the Associated Oregon Hazelnut Industries, Inc. (AOHI), and Secretary/Treasurer of the Nut Growers Society of Oregon, Washington & British Columbia.

The Oregon Filbert Commission is organized under the statutes of our home state of Oregon, and is chartered to sponsor research and promotion activities and in general to work toward the further development of the filbert/hazelnut industry. In this respect it represents the growers of the State of Oregon, which comprise almost 98% of the growers in this country. Commissioners are appointed for three year terms by the State Director of Agriculture. The Commission is the state level authority in Oregon that represents all of the growers, and speaks in their behalf on most concerns regarding filberts and hazelnuts.

I also offer my comments today on behalf of the Nut Growers Society (NGS) of Oregon, Washington & British Columbia. The NGS is really the granddaddy of the filbert industry organizations, and serves as the focal organization for all industry concerns. It is the major disseminator of information within the industry and addresses itself to all problems not otherwise assigned.

These two groups are represented on the AOHI Board, on which I also serve as Secretary. My testimony, when added to that given by Mr. Malone and Mr. Hansberry in their representative capacities, should comprise a complete endorsement of this legislation you have so generously introduced, S. 2429, by the entire U.S. hazelnut industry. Because of this unanimous endorsement, we hope our comments will be given great weight with members of your Committee.

I. Regulation of the Industry.

The filbert industry in the U.S. functions under a federal marketing order which to some degree regulates both quality and quantity. The industry goes even a step further with respect to quality, by voluntarily packing to Oregon standards, which are more stringent than the federal standards. All elements of the Oregon industry are convinced that we can grow as an industry only if we develop and market quality products, and if we create an acceptance in the nut user industries for filberts based on their quality. The industry feels that the U.S. filbert market is stagnant because we haven't been able to provide a consistent supply of quality product. I can testify that the U.S. industry is united in support of the establishment of the Oregon quality standards by the USDA for filbert kernels.

II. Foreign Markets and Quality.

Based on the most recent Gill & Duffus statistics there are more hazelnuts grown commercially in the world than any other nut.

	Ten Year (1974-83) Period		
	World Tons	U.S. Tons	Percent U.S.
Hazelnuts	467,028	12,453	3
Almonds	419,578	239,182	57
Walnuts	259,411	192,079	74

During the 10-year period 1973-83 an average of over 467,000 tons of hazelnuts were produced each year compared with about 419,500 tons of almonds and 259,400 tons of walnuts. 192,000 tons, or 74% of the world's walnuts, were grown in the U.S. and 239,200 tons, or 57% of the world's almonds were grown in the

U.S. The opposite is true for filberts. While only 3% of the world's filberts were grown in the U.S., approximately 70% were grown in Turkey, 22% came from Italy, and 5% from Spain. The U.S. market accounts for only about 2 or 3% of Turkey's crop. Europe, and particularly the Federal Republic of Germany, is their primary market. In 1982 Germany imported over 60,000 metric tons of kernels while France imported 16,800 metric tons. Switzerland, Sweden, the United Kingdom and other European countries all had significant filbert imports. Why do the European countries purchase so many more filberts? I believe it is because Turkey's first quality product is going to that market. It is hard for me to understand why either the U.S. importers, or the Turkish exporters, oppose the more stringent standards for U.S. imports. On the surface it's obvious that lesser quality products can be imported making imports cheaper and easier to move to users who aren't quality conscious. But by importing second quality product there some people effectively limit their sales. It is even harder to understand why the major supplier of filbert kernels would support the lower quality standards. They must be concerned that there is a limited market in the U.S. and that 5,000 tons of second quality product can supply that market. The U.S. filbert industry feels that we haven't really even started to meet potential useage demands.

The most recent USDA statistics show that in 1981 we consumed in the U.S. about 51 pounds of almonds per 100 population. This compares with 54 pounds of walnuts, 38 pounds of pecans and only 5 pounds of hazelnuts. In Europe, by contrast, the most recent consumption figures show that each person consumes over 2.17 pounds of hazelnuts each year. That's 217 pounds per 100 persons versus 5 pounds per 100 persons in the U.S.

As you can see from the per capita calculation for these countries, there is a substantial consumption of hazelnuts in Europe, the principal market for Turkey. And in these countries, it is certain that these per capita consumption figures could not have been developed without the same supply of quality hazelnuts which we are seeking for the United States. The Economic Commission for Europe (ECE) has adopted standards which are as strict or stricter than the ones we are suggesting for this country, and we understand it is these very standards which are used by importers in the Federal Republic of Germany, which is Turkey's largest purchaser of hazelnuts. Yet, we are opposed in our efforts by the importers in their peculiar role as representative for Turkey, when the per capita consumption of hazelnuts in this country ought to be a signal that the U.S. is the largest untapped developed country market in the world and should be the focus of increased quality efforts, not the battleground for quality fights.

As mentioned, the ECE standards and the Turkish standards are as quality minded or more so than the 1% standards being proposed by our industry.

Furthermore, in both these standards, "decay" or "rottenness" is categorized in the strictest or most stringent tolerance categories. We should require at least the 1% standard for the American buying public, which has a right to expect at least comparable quality product in its marketplace as is found and available elsewhere around the world.

Although the ECE and Turkish standards are not mandatory, these standards do provide the quality measure against which these developed markets in Europe were founded, and on which the U.S. market should be built. In the Department's review of the

comments supplied by the importers of Turkish filberts and the Embassy of Turkey opposing the original 1% quality standard, the Department's final impact statement of September 8, 1980, found there was no evidence that Turkish imports were more prone to decay. The Department concluded further that it would be feasible for Turkish hazelnuts to comply with the higher 1% quality standard.

I'm not trying to sell you on other types of nuts, but buyers tell me they can handle a lot of almonds or walnuts before they get a bad one. If you look at the dish of rejects on the table in front of you, you can see where you don't have to look too hard to find a bad hazelnut in the pack under our existing federal standards. When you have the worst quality product to offer, the only way you can compete for sales is with price.

The most recent import inspection statistics that I have seen cover a 16 month period and show that a total of 362 lots were inspected by USDA. 341, or over 94%, had less than 2% major defects. Of the remaining 22, 5 had over 4% major defects, and the worst had 5.24%. About half of the lots, 179, had under 1%.

Turkey alone produces almost 165,000 tons of kernels a year. Even if 5% of that product were defective, it still would leave over 156,700 tons of excellent product. It appears to me that the problem isn't one of inability to make grade as much as one of unwillingness to make the effort to properly work the product. Over 3,992 tons of product were inspected during this 16 month period and 1,892 tons, about 47%, passed with less than 1% major defects. This is only a little more than 1% of Turkey's total production. It is inconceivable that with the amount of product available for sale only 1% can be put into condition to meet proposed U.S. quality standards or that they would have to incur

exorbitant costs working their product. In Oregon, if tests suggest a high ratio of major defect, the lot is dumped and is reworked. While this is costly it also keeps standards high and helps build a reputation for quality. I could endorse a price selling policy if such a policy resulted in increased U.S. sales or if Turkey was selling its huge crop each year like the almond and walnut industries seem to be able to do. In truth, however, net sales in the U.S. have not increased and Turkey continues to produce far more product than it can sell in existing markets. Yet, somehow Turkey has been convinced by the U.S. Association of Food Industries, Inc., that price selling will result in better overall returns than quality selling and market development. The Oregon industry is just as convinced that the filbert industry will continue to remain in the doldrums as long as we continue to sell an inferior product. Over 100,000 tons of hazelnuts had to be diverted by Turkey in 1984 and were processed into oil. The Turkish industry continues to grow, but its markets don't, and I believe that is because of its basic selling policy, at least in this country.

As Mr. Hansberry and Mr. Malone have already said, we have done everything possible within the system but to date have not achieved the 1% standard, and even of more concern are without an explanation from the Department as to why they haven't changed the standard.

III. Tariff Comparability Among Domestic Nuts.

Apart from the quality standard tariff provisions of S. 2429, is the modest adjustment of the current 8 cent shelled pound tariff to 16 cents per pound. One of the more practical business-minded arguments for the increase in this tariff is the

comparability in price and therefore the need for comparability in tariffs among domestic nuts. As Members of the Committee are aware, walnuts enjoy a 15 cent per pound tariff and almonds a 16.5 cents per pound tariff, yet filberts have remained for decades at the 8 cent per pound tariff.

Assuming a roughly equivalent ratio between tariff and price for these three domestic nuts, I have provided an in-shell price comparison table to my testimony (see Table 1) for the years 1927-83. These statistics are based on the cents per pound in-shell, for the field price or grower price received during these years.

An additional table provided with my testimony (see Table 2) shows prices per pound for shelled or kernels for these three domestic nuts during the years 1927-1983. These figures have been calculated from the in-shell field prices received by the growers based on the "crack-out" ratio, which is the amount of kernel production from the pounds of in-shell nuts. For instance, 40% of the in-shell weight is kernel weight.

 TABLE 1

PRICES PER POUND, 1927-1983
FILBERTS, WALNUTS, ALMONDS
(ALL FIGURES ARE CENTS PER LB., IN SHELL)

YEAR	FILBERTS	WALNUTS	ALMONDS
1927	16.0	16.5	16.0
1928	19.0	21.5	17.0
1929	15.0	16.0	24.0
1930	17.0	20.5	10.0
1931	12.5	11.1	8.8
1932	10.0	8.9	8.2
1933	15.0	11.2	9.3
1934	10.1	9.5	9.0
1935	13.2	10.1	14.0
1936	13.5	10.8	20.1
1937	10.8	9.0	13.8.
1938	11.2	11.0	12.9
1939	11.3	8.4	10.5
1940	12.5	11.5	16.2
1941	15.3	12.6	35.2
1942	17.6	15.3	22.1
1943	24.9	23.9	36.6
1944	27.0	22.3	37.2
1945	27.5	25.4	36.0
1946	19.2	27.7	24.3
1947	12.6	19.1	27.9
1948	12.9	20.9	21.1
1949	10.9	17.5	16.5

YEAR	FILBERTS	WALNUTS	ALMONDS
1950	17.5	19.2	27.3
1951	17.5	21.4	23.6
1952	14.9	19.8	23.2
1953	17.2	20.6	23.8
1954	16.0	17.5	24.9
1955	21.0	27.6	43.0
1956	25.5	22.0	40.2
1957	15.0	21.2	25.2
1958	19.0	18.8	38.6
1959	18.8	24.0	23.3
1960	21.0	26.8	26.3
1961	19.0	23.3	28.0
1962	22.0	23.3	32.7
1963	23.5	23.0	29.5
1964	22.0	22.8	31.5
1965	22.5	21.6	30.8
1966	19.5	22.9	30.5
1967	24.6	27.9	29.1
1968	25.9	32.3	29.8
1969	27.5	20.9	30.3
1970	28.5	20.2	32.3
1971	20.7	20.9	37.5
1972	25.4	28.2	39.2
1973	29.6	30.2	74.5
1974	28.0	25.9	45.0
1975	30.5	23.4	40.0
1976	32.0	31.4	40.5
1977	34.3	36.5	49.0
1978	40.3	63.2	84.0
1979	47.5	42.3	92.4
1980	57.6	46.8	88.4
1981	39.3	50.7	46.2
1982	34.0	51.0	56.4
1983	29.1	N/A	69.0

SOURCE: 1927 THROUGH 1938 - USDA, BUREAU OF AGRI. ECON., CROP RPTG. BD.
1939 THROUGH 1955 - USDA, AMS, CRB BULLETIN 195
1956 THROUGH 1971 - USDA, AMS, SRS, CRB - BULLETINS "TREE NUTS"
1972 THROUGH 1983 - USDA, SRS, CRB BULLETINS - "NONCITRUS FRUITS AND NUTS"

CALCULATION NOTE: BEGINNING IN 1977, USDA REPORTED ALMOND UNIT PRICES IN CENTS PER SHELLED POUND, I.E. KERNELS. THEY CONTINUED REPORTING FILBERTS AND WALNUTS IN DOLLARS PER IN-SHELL POUND. HENCE, THE VALUES REPORTED ABOVE FOR ALMONDS ARE CONVERTED FROM CENTS PER POUND SHELLED TO DOLLARS PER POUND IN-SHELL AS FOLLOWS:

CENTS PER POUND SHELLED X 2000 EQUALLED DOLLARS PER TON SHELLED, DIVIDED BY A 1.667 EQUALLED DOLLARS PER TON IN-SHELL BASIS RATIO, I.E. 60% OF IN-SHELL WEIGHT IS THE KERNEL, OR 1.667 POUNDS OF IN-SHELL NUTS EQUAL 1.0 POUND OF SHELLED NUTS, OR KERNELS.

TABLE 2

PRICES PER POUND, 1927-1983
FILBERT, WALNUT, ALMOND KERNELS
(ALL FIGURES ARE CENTS PER LB.)

YEAR	FILBERTS	WALNUTS	ALMONDS
1927	40.00	36.63	26.72
1928	47.50	47.73	28.39
1929	37.50	35.52	40.08
1930	42.50	45.51	16.70
1931	31.25	24.64	14.70
1932	25.00	19.76	13.69
1933	37.50	24.86	15.53
1934	25.25	21.09	15.03
1935	33.00	22.42	23.38
1936	33.75	23.98	33.57
1937	27.00	19.98	23.05
1938	28.00	24.42	21.54
1939	28.25	18.65	17.54
1940	31.25	25.53	27.05
1941	38.25	27.97	58.78
1942	44.00	33.97	36.91
1943	62.25	53.06	61.12
1944	67.50	49.51	62.12
1945	68.75	56.39	60.12
1946	48.00	61.49	40.58
1947	31.50	42.40	46.59
1948	32.25	46.40	35.24
1949	27.25	38.85	27.56

PAGE 2 OF 3 TABLE 2

YEAR	FILBERTS	WALNUTS	ALMONDS
1950	43.75	45.62	45.59
1951	43.75	47.50	39.41
1952	37.25	43.96	38.74
1953	43.00	45.73	39.75
1954	40.00	38.85	41.58
1955	52.50	61.27	71.81
1956	63.75	48.84	67.13
1957	37.50	47.06	42.08
1958	47.50	41.74	64.46
1959	47.00	53.28	38.91
1960	52.50	59.50	43.92
1961	47.50	51.73	46.76
1962	55.00	51.73	54.61
1963	58.75	51.06	49.27
1964	55.00	50.62	52.61
1965	56.25	47.95	51.44
1966	48.75	50.84	50.94
1967	61.50	61.94	48.60
1968	64.75	71.71	49.77
1969	68.75	46.40	50.60
1970	71.25	44.84	53.94
1971	51.75	46.40	62.63
1972	63.50	62.60	65.46
1973	74.00	67.04	124.42
1974	70.00	57.50	75.15
1975	76.25	51.95	66.80
1976	80.00	69.71	67.64
1977	85.75	81.03	81.83
1978	100.75	140.30	140.28
1979	118.75	93.91	154.31
1980	144.00	103.90	147.63
1981	98.25	112.55	77.15
1982	85.00	113.22	94.19
1983	72.75	N/A	115.23

SOURCE: 1927 THROUGH 1938 - USDA, BUREAU OF AGRI. ECON., CROP RPTG. BD.
1939 THROUGH 1955 - USDA, AMS, CRB BULLETIN 195
1956 THROUGH 1971 - USDA, AMS, SRS, CRB - BULLETINS "TREE NUTS"
1972 THROUGH 1983 - USDA, SRS, CRB BULLETINS - "NONCITRUS FRUITS AND NUTS"

CALCULATION NOTE: BEGINNING IN 1977, USDA REPORTED ALMOND UNIT PRICES IN CENTS PER SHELLED POUND, I.E. KERNELS. USDA CONTINUED REPORTING FILBERTS AND WALNUTS IN DOLLARS PER IN-SHELL POUND. HENCE, THE AMOUNTS REPORTED ABOVE FOR FILBERTS AND WALNUTS ARE CONVERTED FROM CENTS PER POUND IN-SHELL TO DOLLARS PER POUND KERNELS AS FOLLOWS:

CENTS PER POUND IN-SHELL FILBERTS ARE MULTIPLIED BY A 2.5 "CRACK-OUT" RATIO, I.E. 40% OF IN-SHELL WEIGHT IS THE KERNEL, OR 2.5 POUNDS OF IN-SHELL NUTS EQUAL 1.0 POUND OF SHELLED NUTS, OR KERNELS. THE CRACK-OUT RATIO FOR WALNUTS IS 45%, OR A MULTIPLIER OF 2.22.

VICTOR ATIYEH
GOVERNOR

Oregon Department of Agriculture

635 CAPITOL STREET NE . SALEM, OREGON 97310-0110

September 6, 1984

The Honorable Bob Packwood
Senate Committee on Finance
United States Senate
WASHINGTON DC 20510

SENATE FINANCING ON U.S. FILBERT/HAZELNUT LEGISLATION

Dear Senator:

As the Director for the Oregon Department of Agriculture, I wanted to add my support for adoption of your important filbert/hazelnut legislation, S. 2429, which has been introduced by you, Senator Hatfield, and members of our Congressional Delegation in an identical bill, H.R. 5871.

Although I am unable to attend the Hearings which the Senate Finance Committee is conducting under your chairmanship on September 14, 1984, I wanted to add my strong endorsement to this important bill for the U.S. and principally the Oregon hazelnut industry. I'm sure you are familiar with the plight faced by the small businessman or woman with an average 25-100 acre hazelnut orchard. Prices have been depressed, quality has been weakened by poor quality "decayed" imports, and all the while our steadfast growers have been endeavoring to build a stronger and better U.S. market. But without the help of this legislation, much of their effort may be in vain.

We need the 1% quality standard which your legislation mandates. We do not need comparability in the tariffs among competing nut varieties. The investments the Oregon growers have made, the losses they have had to suffer through in these past years, and their strong desire to establish and build an even stronger American agricultural base is a compelling case.

Thank you and the members of your Committee for considering these comments. I would be happy to supply any further documentation or analysis which the Committee feels would be helpful. We certainly look forward to the promise of your efforts.

Sincerely,

Leonard Kunzman

Leonard Kunzman
Director
(503) 378-4152

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Mr. HANSBERRY. Mr. Chairman, I have been handed testimony by Hon. Les AuCoin and I would like to present that.

Senator PACKWOOD. That will also be made a part of the record.

Mr. HANSBERRY. Thank you.

[The testimony submitted from U.S. Representative Les AuCoin follows:]

TESTIMONY OF HON. LES AUCOIN

Mr. Chairman, I am pleased to testify before you today along with my good friends from Oregon who have traveled here in support of S. 2429—legislation for the growth and enhancement of the U.S. hazelnut industry. As a House sponsor of the companion bill, H.R. 5871, I am fully committed to passage of this measure.

As I am sure you will hear from the growers and processors this morning, the situation for the industry has never been more bleak. Growers have suffered losses for the last several years, and the future does not look much brighter.

The processors and growers have been trying for years to build a U.S. market based on quality. But at every turn in their effort to develop quality, they have faced the import of "decayed" product from Turkey. As you can see from the sample of decayed product submitted to your committee, there is a large difference in the amount of decayed product under the 2% Federal standard supported by the Department of Agriculture and the 1% standard we have all sought over the past years.

Opponents of this legislation will claim this morning that our legislation would restrict imports. I don't believe this argument is justifiable. Under the existing standard, a little less than half of imports met a 1% standard over the past several months. Of the balance of imports, nearly all satisfied the 2% standard. Based on this, it is really a question of whether or not the exporters of hazelnuts to United States want to meet a 1% standard and build a market on quality, not whether they can meet this quality standard.

Turkey, which produces approximately 70% of hazelnuts in the world, has developed large markets with high per capita consumption in Europe. Those markets were certainly built on quality product, much in the same way that the markets for other nuts in this country have developed based on quality. But as long as we fail to require a minimum standard of at least 1% on the quality of imports which are available in this country, we will not have a steady, reliable source of product for the distributors and retailers to build upon in this country.

The second aspect of our legislation is the adjustment in the tariff schedule for filberts—from 8 cents to 16 cents. This proposal is one which deserves a thorough hearing before the Congress. Among the factors to be considered are first, frankly, the terrible economic plight of the small businessmen and women who have made large personal commitments to their small filbert groves. The years of losses and the likelihood of losses in the future may well drive these orchardists out of business. We should not allow this to happen.

Moreover, I hope the committee will consider the effects of inflation on the filbert tariff. Since its adoption, the effects of inflation have severely eroded whatever impact this tariff was intended to have.

My guess is that the tariff, if it were indexed for inflation, would approximate 30 cents per pound, and of course, we are only suggesting it be changed to 16 cents if the hearing record and merits will support it.

Lastly, the committee should consider the comparability of tariffs for comparable nuts in this country. There is a certain substitution or market substitution experienced among domestic nuts, and as long as walnuts enjoy a 15 cents per pound tariff, and almonds a 16.5 cent per pound tariff, filbert growers in this country will suffer disproportionately. Adjusting the filbert tariff to 16 cents would balance the effects of this economic substitution.

Mr. Chairman, you and I are both proponents of strong and free trade for the United States. We do not wish to impinge upon that policy with this legislation, and I do not believe we do. Quality standards are a legitimate concern for commodities, and in this instance, a 1% standard is necessary.

To the great detriment of our home grown filbert industry, the filbert market has been tipped heavily in favor of foreign exporters. I hope we can continue to build the case for passage of this legislation, and I will do all I can to help in that effort. Thank you again for the opportunity to testify this morning.

Senator PACKWOOD. Let me ask you something historically before Senator Gorton testifies. Why is Turkey such a predominant filbert producer? Did the industry initially start there centuries ago. Did our industry—principally the Pacific Northwest—start from here?

Mr. HANSBERRY. I suspect, Senator, that it has been a long time industry in Turkey. I know that a lot of the root stocks, even in Italy, United States, have originated from that country.

Senator PACKWOOD. All right.

Mr. HANSBERRY. The origin was probably there.

Senator PACKWOOD. I have no other questions. I think your case is compelling. I wish I could be more optimistic in what Mr. Brader said about "we are looking at it." Although they have reached no conclusion, I didn't sense that the conclusion they are necessarily going to reach is what we want. And that's why I think we will need legislation to achieve what we want. But you have made a very, very good case, and I appreciate it.

Mr. HANSBERRY. Thank you.

Senator PACKWOOD. Now we will hear from Slade Gorton, my good friend from the State of Washington, with whom I serve on the Commerce Committee and have worked with on many, many issues long before he and I both got to the U.S. Senate.

Thank you for waiting, Slade, until the panel had finished.

Senator GORTON. I was pleased to do so, Mr. Chairman. I was very happy to listen to at least some of the testimony by the preceding witnesses.

STATEMENT OF HON. SLADE GORTON, U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator GORTON. I'm delighted to appear before you formally to offer my support for S. 2429, which I am a cosponsor with you and with Senator Hatfield.

I'm convinced that it's an important step in providing support which the filbert industry in the United States needs, in your home State and in my own.

My brief comments this morning will touch on two significant areas which are covered by the bill—the adjustment in the existing tariff for filberts, and the need for quality control of imports into the United States.

Because we served on the Commerce Committee together, you are well aware, as are most of my colleagues, on the great reluctance with which I support or approach any bill which calls for restrictions on international trade on either imports or on exports.

The trade of the United States in both directions depends on freedom and on equity.

Senator PACKWOOD. Interesting though in this situation, because both Oregon and Washington have a desperate interest in trade, we are not asking for a restriction in trade. We are asking for an increase in the quality of what is imported.

Senator GORTON. That's precisely the case. And it's precisely that reason that I was persuaded to go on this bill as a cosponsor. We support the free trade, but we also want quality and we also wish for equity.

In the case of filberts, for the growth of the industry in both of our States it has become imperative that the tariff on imported filberts is significantly lower than that on other imported nuts, such as almonds and walnuts. Now that argument alone is not a compelling reason to pass this bill, though it is a factor.

There is a strong indication, however, that our filbert tariff, which was set decades ago, may well need updating if only because of the impact of inflation during the intervening years. S. 2429 addresses the tariff question in a reasonable manner. It sends a clear signal to the U.S. Department of Agriculture and the foreign filbert industry that the time has come for us to reexamine our policies in this respect.

Perhaps more important in consideration of this bill is its second aspect. That concerning quality standards for imported filberts. Under current Department of Agriculture regulations, not more than 2 percent of imported or domestic filberts can contain the serious defects of mold or insidity, insect, injury or decay. To my knowledge, the 2-percent standard was adopted against the strong objections of American filbert growers who often are one-half of 1 percent. The 2-percent standard is also a higher allowance for decay than the standards demanded by many other filbert importing nations.

Given these facts, given the fact that it would be relatively easy for Turkey to meet such standards——

Senator PACKWOOD. Which they meet in Germany. They clearly can meet those stricter standards.

Senator GORTON. Which they meet in their exports to Germany, it is certainly not unreasonable for the United States to require imported filberts meet those fixed standards, which ours can meet, which Turkish filberts can meet going to other countries.

As a consequence, I add my endorsement to your own, Mr. Chairman, to S. 2429 in both of its aspects. I look forward to working with you and with the industry and with other interested parties to create a situation which is fair and up to date and which will help our domestic industries. For that matter, will help the users and consumers.

Senator PACKWOOD. Slade, thank you. As usual, I'm delighted to have you as an ally in this battle.

Senator GORTON. Thank you.

Senator PACKWOOD. I appreciate you coming.

[The prepared statement of Senator Gorton follows:]

PREPARED STATEMENT OF SENATOR SLADE GORTON

Mr. Chairman, I am pleased to have the opportunity to come before you today to offer my support for S. 2429, which I have cosponsored with you and Senator Hatfield. This measure is an important step in providing support which the U.S. filbert industry needs in our home states of Washington and Oregon.

My comments this morning will touch upon two important areas addressed by the bill: (1) an adjustment in the existing tariff for filberts, and (2) the need for quality control of U.S. filbert imports.

As my colleagues well know, and as my record as a U.S. Senator shows, I am generally hesitant about tariffs or quotas on any products imported to the United States. I am firmly convinced that government regulation of international commerce, or domestic commerce for that matter, must be scrutinized closely and thoroughly, in all instances. The federal role in regulating commerce must not be one of hindering, but rather, one of facilitating that commerce.

In the case of filberts, an industry firmly planted in the fertile soils of Washington and Oregon, it has become apparent that the U.S. tariff on imported filbers is significantly lower than the tariffs on some other imported nuts, such as almonds and walnuts. This argument, in itself, is not a compelling reason to raise our filbert tariff. However, there is a strong indication that the filbert tariff, which was set decades ago, may be in need of updating. S. 2429 addresses the tariff question in a reasonable manner and sends a clear signal to the U.S. Department of Agriculture and the foreign filbert industry that the time has come for us to reexamine this country's filbert tariff policy.

A more important question is that concerning quality standards for imported filberts. Under current U.S. Department of Agriculture regulations, not more than 2 percent of imported or domestic filberts can contain the serious defects of "mold, rancidity, insect injury, or decay." To my knowledge, this 2 percent standard was adopted despite the strong objections of American filbert growers, who often pack to a standard on one-half of one percent. The 2 percent standard is also a higher allowance for decay than the standards demanded by many other filbert importing nations. Given these facts, it is not unreasonable for the United States to consider requiring imported filberts to meet the same strict standards for defectiveness observed by our domestic filbert growers.

Mr. Chairman, I once again add my endorsement to S. 2429. I look forward to working with you, the filbert industry, and other interested parties on this issue. Thank you.

Senator PACKWOOD. We will conclude on this bill with a panel of Mr. Nathan Bodner, the director of purchasing for Entenmann's; Mr. Andre Causse, president of Andre Causse, Inc., accompanied by Richard Sullivan; and Mr. J.M. Colton Hand, Consumers for World Trade.

Good morning, Steve.

Gentlemen, do you want to go in the order that you appear on the list, or do you have a different preference? If you have no different preference, we will just start with Mr. Bodner.

STATEMENT OF NATHAN BODNER, DIRECTOR OF PURCHASING, ENTENMANN'S INC., BAY SHORE, NY

Mr. BODNER. Good morning and thank you, Mr. Chairman, for this opportunity to testify. My written statement has been submitted, and is available.

Entenmann's is a large producer of baked goods with distribution over about half the country. Entenmann's was founded in 1898 by William Entenmann, a German immigrant. Many of our products derive from the original German recipes which feature the use of filbert paste as a flavoring. Our adherence to these recipes and very high quality standards have been the major factor in our longevity and growth.

We use filberts imported from Turkey and Italy, and we don't use any filberts that are produced in the United States. There are two reasons for this. First, the oil content of the domestic nuts is so low that they cannot be worked into an acceptable paste.

Senator PACKWOOD. Why is that? Not that they cannot be worked into a paste, but why is it low?

Mr. BODNER. It's low because the growing characteristics are different between the Oregon nut and those that are imported from Turkey or Italy.

Senator PACKWOOD. The reason?

Mr. BODNER. I don't know. It may be the very nature of the tree itself. The domestic nut we have analyzed has a volatile oil content

in the area of 50 to 55 percent. And the imported nuts have an oil content that range between 65 and 70 percent fat.

In addition, Mr. Chairman, numerous taste tests have shown that the flavor of the imported product is far superior for our purposes than the flavor of the domestic product. To set the record straight, we suspect that it is not the decay which imparts that flavor, but rather the very much higher oil content of the imported nut, which carries the flavor along with it.

I do not believe that the Oregon standard can be routinely met in imports due to the very nature of the nut. I think that the increased oil content may very well make the imported nut more susceptible to decay.

Additionally, Oregon's availability of shelled nuts during the last year could not satisfy Entenmann's production requirements in terms of quantity. Imposition of an increased duty on filberts will, obviously, increase costs both to us and the consumer, without, I don't believe, accomplishing much else. And this is the basic reason for our opposition to Senate bill 2429.

Mr. Chairman, I have brought back some coffee cake with me. I'd like to demonstrate, if I may, the use we put to the filberts. The filberts in the cake are not recognizable as filberts by appearance, but certainly are by flavor. We produce out of the paste a filling which goes into the center of all of our Danish rings and many of our other products. And for that very reason, the need and use of filberts by our company goes really to the very basic nature of the Entenmann's business.

And if you will permit, sir, I would like to cut some slices.

Senator PACKWOOD. We can put lots of things in the record, but I'm not sure—— [Laughter.]

Senator SYMMS. Mr. Chairman, I knew there was some reason why I came. [Laughter.]

Senator PACKWOOD. Awful. It must have an inferior filbert paste. [Laughter.]

Mr. BODNER. Mr. Chairman, I will be happy to answer any questions that you have. [Laughter.]

Senator PACKWOOD. I will ask you a few in a moment. I will let the rest of the panel go first.

[The prepared statement of Mr. Bodner follows:]

STATEMENT OF NATHAN BODNER, ENTENMANN'S, INC.

REGARDING S. 2429

I am Nate Bodner, Director of Purchasing for Entenmann's, Inc., a wholly owned subsidiary of General Foods Corporation. I appreciate this opportunity to testify in opposition to S. 2429, a bill to increase the duty on certain imported shelled filberts.

Entenmann's, together with its subsidiary, Oroweat, is a large manufacturer of bakery products. Together we have 11 bakeries in New York, Florida, Illinois, Colorado, California, Texas, Washington, Oregon and Hawaii -- 6,000 employees, and distribute our products across the country. At this time, however, the Entenmann products that include filberts have most of their distribution in the eastern half of the country.

Entenmann's purchases 800 metric tons of filberts each year for use in its bakery products. These filberts are ground into a paste for use in a large proportion of the product line and are used for their unique flavor characteristics. All filberts currently used by Entenmann's are imported from Turkey, Italy or Spain. In the past we have experimented with domestic filberts and found them totally unsuited to our use. The reason is that the imported filberts have a significantly higher oil content which enables them to be made into a workable paste. The lower oil domestic filberts are unworkable for such purposes. We have also noted that the flavor profile of the imported filbert when ground into a paste is markedly superior to the flavor obtained by producing a paste from the domestic nut.

Imported filberts readily meet all defect tolerances imposed by the Oregon Standard except for decay. The reason for the higher decay level in the imported product is due to the use of solar drying (as opposed to the energy intensive dryers used in the United States) and the higher oil content. The features of the imported filbert that would make it difficult to meet the Oregon Standard

are precisely those characteristics which are responsible for the unique flavor profile that distinguishes Entenmann's products from those of its competitors.

The imposition of a duty surcharge on those filberts failing to meet the Oregon Standard as well as the imposition of a doubled duty of its filberts meeting the standard, would place an onerous burden on Entenmann's, Inc. Entenmann's is well known for its high quality standard and unique product line and flavor. The imported filbert goes to the very heart of Entenmann's business. The imposition of such an enormous duty would be a significant burden on the business and ultimately the consumer.

Entenmann's, like Senators Packwood and Hatfield, believes that consumers should have the best quality products available to them. S. 2429 does not accomplish this. The Bill should be reconsidered. Entenmann's would be more than pleased to work with representatives of your committee to accomplish the goals set forth by Senators Packwood and Hatfield.

Thank you.

STATEMENT OF ANDRE CAUSSE, PRESIDENT, ANDRE CAUSSE, INC., NEW YORK, ON BEHALF OF THE ASSOCIATION OF FOOD INDUSTRIES

Mr. CAUSSE. Thank you, Mr. Chairman.

In the interest of time, I'm going to excerpt part of my testimony. My name is Andre Causse. I'm third generation owner and manager of Andre Causse, a family business which specializes in the import of Turkish and Italian shelled filberts.

I appear here this morning on behalf of the Association of Food Industries of New York City, a trade association which represents importers of Turkish and Italian filberts. I am accompanied by the Association's executive vice president, Richard Sullivan; and the Association counsel, Richard L. Frank.

We are strongly opposed to S. 2429, which would amend the tariff schedules of the United States to significantly and unfairly increase the duties on imported shelled filberts. We are opposed to S. 2429 because it would tend to exclude from the United States the high quality nuts which are produced by Turkey and Italy, two of our staunch NATO Allies.

In addition, the legislation would harm both consumers and domestic users of imported filberts, and would also violate existing trade agreements. Finally, the legislation is probably unconstitutional.

S. 2429 would revise section 145.46 of the tariff schedules of the United States by increasing the present tariff applicable to imported filberts with new rates of duties ranging from 100 percent to 725 percent higher than existing rates.

Filberts failing to meet these standards established by the State of Oregon would be subject to a $0.66 per pound duty, up from the current $0.08 per pound duty. These higher duties would eliminate all the current imports of Turkish and Italian shelled filberts that have been the original and traditional source of supply in this country.

The quality standards established by the State of Oregon are not justified by any considerations of health or safety. Oregon's standards limit defects, including decay, to an aggregate of 1 percent. The standard established by USDA in 1982 limits these same defects to 2 percent, while the standard enforced by the U.S. Food and Drug Administration allows a 5 percent tolerance.

The filberts being imported from Turkey and Italy already meet these strict USDA limits. The imported nut is preferred by many food processors because of its unique taste and flavor and higher oil content.

S. 2429 would violate U.S. obligations under the General Agreement of Tariffs and Trade. The duty on imported filberts is bound. And if it is increased, the United States would be required to compensate its trading partners by a reduction of U.S. tariffs on other products that originate in Turkey and Italy. Other trading partners of the United States are presently attempting to increase bound duties on U.S. exports to their countries. Enactment of S. 2429 would be a poor precedent which might prove costly to important export segments of American agriculture and industry.

Legislation to base filbert tariffs upon compliance with the regulations of the State of Oregon would represent an abdication of the Federal Government's exclusive authority to control interstate and foreign commerce. This legislation would allow the State of Oregon to establish the standards by which the admission of imported filberts into other States would be judged. Thus, the legislation would be clearly unconstitutional.

Finally, it is important to recognize that U.S. imports of filberts come from two countries, which are strong friends and NATO allies of the United States. Turkey and Italy are each important markets for the export commodities and manufactured goods produced in the United States. The Congress should do nothing to discriminate against imports of filberts from either of these nations.

Thank you for the opportunity to present this testimony.

Senator PACKWOOD. Thank you, sir.

[The prepared statement of Mr. Causse follows:]

TESTIMONY OF ANDRE CAUSSE

Mr. Chairman. My name is Andre Causse. I am third generation Owner and Manager of Andre L. Causse, a family business which specializes in the import of Turkish and Italian shelled filberts. I appear here this morning on behalf of the Association of Food Industries of New York City, a trade association which represents importers of Turkish and Italian filberts. I am accompanied by the Association's Executive Vice President, Richard Sullivan, and Association counsel, Richard L. Frank. We are strongly opposed to S. 2429 which would amend the tariff schedules of the United States to significantly and unfairly increase the duties on imported shelled filberts.

We are opposed to S. 2429 because it would tend to exclude from the United States the high quality nuts which are produced by Turkey and Italy, two of our staunch NATO allies. In addition, the legislation would harm both consumers and domestic users of imported filberts, and would also violate existing trade agreements. Finally, the legislation is probably unconstitutional.

S. 2429 would revise Section 145.46 of the Tariff Schedules of the United States by increasing the present tariff applicable to imported filberts with new rates of duty—ranging from 100% to 725% higher than existing rates. Filberts failing to meet the standards established by the State of Oregon would be subject to a 66 cents per pound duty, up from the current 8 cents per pound duty. These higher duties would eliminate all the current imports of Turkish and Italian shelled filberts that have been the original and traditional source of supply in this country.

The quality standards established by the State of Oregon are not justified by any considerations of health or safety. Oregon's standards limit defects including decay to an aggregate of 1 percent. The standard established by USDA in 1982 would limit these same defects to 2 percent, while the standard enforced by the U.S. Food and Drug Administration allows a 5 percent tolerance. The filberts being imported from Turkey and Italy already meet these strict USDA limits. The imported nut is preferred by many food processors because of its unique taste and flavor and higher oil content.

Because Oregon filberts are harvested in a wet climate, they must be dried in energy intensive gas driers. In Turkey and Italy, filberts are picked by hand and dried in the sun, just as raisins are dried in the sun in the United States. The result is an excellent product which has been found to meet both USDA and FDA standards. Because the Oregon standard is based on characteristics of gas dried filberts, which have a slightly lower defect level than sun dried, imported filberts, incorporating the Oregon standard into the U.S. Tariff Schedule would exclude sun dried, imported filberts.

The distinction between gas dried and naturally dried filberts is entirely aesthetic. There are no health or safety implications. Many U.S. food processors, who are extremely careful about the quality of their finished products, purchase both Oregon and imported filberts. They should continue to have their choice between the domestic and imported nuts.

Domestic producers have successfully developed the in-shell market for filberts, while shelled filberts have traditionally been imported from Turkey and Italy. For

decades, these imported shelled filberts have been preferred by many food processors. In products such as hazelnut paste for the bakery trade, the higher oil content of the imported nuts is required. Passage of S. 2429 could well cause the preparation of filbert paste to be moved overseas, with a loss of U.S. jobs.

The market for filberts in the United States is regulated by a federal marketing order. The domestic filbert crop is relatively speaking a very small crop. It competes with giant crops like those of almonds, pecans, walnuts, and other nuts for a share of the nut dollar. When these other nuts are in huge supply, they compete vigorously with filberts in the market, as do almonds at the present time. Other nut growers and processors in the United States market their products aggressively. However, the industry committee which administers the filbert marketing order withholds from marketing channels substantial quantities of U.S. produced filberts. The result is that consumption of filberts is negligible as compared with that of other nuts in the United States or with filbert consumption in Europe. It would be more effective for domestic and import interests to support joint efforts to promote filberts and expand consumption.

S. 2429 would violate U.S. obligations under the General Agreement on Tariffs and Trade. The duty on imported filberts is bound, and if it is increased, the United States would be required to compensate its trading partners by a reduction of U.S. tariffs on other products that originate in Turkey and Italy. Other trading partners of the United States are presently attempting to increase bound duties on United States exports to their countries. Enactment of S. 2429 would be a poor precedent which might prove costly to important export segments of American agriculture and industry.

Legislation to base filbert tariffs upon compliance with the regulations of the State of Oregon would represent an abdication of the Federal government's exclusive authority to control interstate and foreign commerce. This legislation would allow the State of Oregon to establish the standards by which the admission of imported filberts into other states would be judged. Thus, the legislation would be clearly unconstitutional.

Finally, it is important to recognize that U.S. imports of filberts come from two nations which are strong friends and NATO allies of the United States. Turkey and Italy are each important markets for the export commodities and manufactured goods produced in the United States. The Congress should do nothing to discriminate against imports of filberts from either of these nations.

To the extent that the Subcommittees desire further information regarding the marketing relationships between imported and domestic filberts, that information should be forthcoming out of the Section 332 investigation which the Finance Committee has requested from the U.S. International Trade Commission. The Association of Food Industries intends to cooperate fully in providing information to the Agency and we urge the domestic producers to do likewise.

For all of the reasons stated above, the Association of Food Industries opposes S. 2429, and urges that it be tabled by the subcommittees.

Thank you for the opportunity to present this testimony.

STATEMENT OF J.M. COLTON HAND, BOARD OF DIRECTORS, CONSUMERS FOR WORLD TRADE, WASHINGTON, DC

Senator PACKWOOD. Mr. Hand.

Mr. HAND. I would just like to read the two-paged testimony that was submitted.

Mr. Chairman, my name is Colton Hand. I am a member of the board of directors of Consumers for World Trade, a national organization solely concerned with the effects of international trade on the welfare of the American consumer. The voice of the American consumer is seldom heard when decisions are being made on world trade issues. We appreciate this opportunity to testify.

S. 2429 would increase the tariff on certain shelled filberts, which would, in turn, increase the selling price to the American consumer. As I understand the bill, shelled filberts not conforming to certain standards would be subject to duties at least 400 percent higher than present duties. Filberts that do conform to these standards would face a 100-percent increase.

The United States has committed itself in the General Agreement on Tariffs and Trade to maintain the existing tariff treatment on filberts, and would be subject either to retaliation or granting compensatory tariff concessions on some other article imported into this country if the present duty was increased as proposed.

Inasmuch as Italy is one of the principal suppliers of filberts to U.S. markets, retaliation of the European Community could easily be in the form of increasing barriers to U.S. exports of almonds to the Community which customarily takes a substantial portion of total U.S. exports; recently $244 million.

Imported filberts are already subject to rigorous standards. They are prohibited by the Plant Quarantine Act if they have been exposed to attacks by pests for which no remedy is available. They must, under the Food, Drug, and Cosmetic Act, be of "good wholesome quality." Finally, they cannot be imported unless conforming to standards established under section 8(e) of the Agricultural Marketing Act of 1937.

These standards are always formulated by U.S. growers, and they are generally designed to restrict available supplies and increase prices for the growers to the maximum the market will bear. The standards are invariably designed to favor domestic varieties and characteristics at the expense of imported varieties.

S. 2429 would superimpose upon all these standards additional requirements formulated by the State of Oregon, which have nothing to do with health or safety, but attempt to force food processors to substitute domestic for imported nuts with resulting higher prices for the end products bought by American consumers. Needless to say, direct consumption of unshelled filberts by Americans would also be very significantly affected pricewise.

Imports of unshelled filberts have been steadily declining for a period of 4 years as a percentage of total domestic consumption until 1983 when domestic consumption fell, and there was a short domestic crop that altered, presumably temporarily, this long-term decline. Oregons growers have seized upon this as a rationale to further restrict imports.

Consumers for World Trade wish to be recorded as opposed to S. 2429 because it would have an adverse impact on consumers and is not, in our opinion, in the national interest.

Thank you very much.

[The prepared statement of Mr. Hand follows:]

CWT
CONSUMERS FOR
WORLD TRADE
1346 Connecticut Avenue NW
Washington, D.C. 20036
202-785-4835

September 14, 1984

STATEMENT BEFORE THE SENATE

COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

Legislation to Increase the Tariff
on Certain Shelled Filberts
S. 2429

Consumers for World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

Directors

DOREEN L. BROWN
President, Consumers for World Trade

C. FRED BERGSTEN
Director, Institute for International Economics

JOAN R. BRADEN
Senior Vice President, Gray & Co.

JOHN R. FRAHM
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ISAIAH FRANK
Professor of International Economics, Johns Hopkins University, School of Advanced International Studies

J. M. COLTON HAND
Vice Chairman, Commission of Inquiry on the Federal Government

HENDRIK S. HOUTHAKKER
Professor of Economics, Harvard University

ROBERT S. MCNAMARA
Former President, The World Bank

GERALD O'BRIEN
Executive Vice President, American Importers Associations (Retired)

WILLIAM MATSON ROTH
President, Roth Properties

SEYMOUR J. RUBIN
Executive Vice President, American Society of International Law

FRED SANDERSON
Senior Fellow, Resources for the Future

PHILIP H. TREZISE
Senior Fellow, Brookings Institution

Executive Director
LORI C. CONSAIORI

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CWT
CONSUMERS FOR
WORLD TRADE
1346 Connecticut Avenue NW
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STATEMENT OF COLTON HAND, A MEMBER OF THE BOARD OF DIRECTORS OF CONSUMERS FOR WORLD TRADE, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON FINANCE, UNITED STATES SENATE, ON SEPTEMBER 14, 1984, CONCERNING S. 2429, A BILL TO INCREASE THE DUTY ON CERTAIN SHELLED FILBERTS.

Mr. Chairman,

My name is Colton Hand. I am a member of the Board of Directors of Consumers for World Trade (CWT) – a national organization solely concerned with the effects of international trade on the welfare of the American consumer. The voice of the American consumer is seldom heard when decisions are being made on world trade issues. We appreciate this opportunity to testify.

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the European Community could easily be in the form of increasing barriers to U. S. exports of almonds to the Community which customarily takes a substantial portion of total U. S. exports (recently $244 million).

Imported filberts are already subject to rigorous standards. They are prohibited by the Plant Quarantine Act if they have been exposed to attacks by pests for which no remedy is available. They must, under the Food, Drug & Cosmetic Act, be of "good wholesome quality." Finally, they cannot be imported unless conforming to standards established under Section 8e of the Agricultural Marketing Act of 1937.

These standards are always formulated by United States growers and are generally designed to restrict available supplies and increase prices for the growers to the maximum that the market will bear. The standards are invariably designed to favor domestic varieties and characteristics at the expense of imported varieties.

S. 2429 would superimpose upon all these standards additional requirements formulated by the State of Oregon which have nothing to do with health or safety, but attempt to force food processors to substitute the domestic for imported nuts with resulting higher prices for the end products bought by American consumers. Needless to say, direct consumption of unshelled filberts by Americans would also be very significantly affected pricewise.

Imports of unshelled filberts have been steadily declining for a period of four years as a percentage of total domestic consumption until 1983 when domestic consumption fell and there was a short domestic crop that altered, presumably temporarily, this long-term decline. Oregon growers have seized upon this as a rationale to further restrict imports.

Consumers for World Trade wish to be recorded as opposed to S. 2429 because it would have an adverse impact on consumers and is not, in our opinion, in the national interest.

Senator PACKWOOD. Mr. Bodner, let me ask you first. As far as Entenmann's is concerned, your total use of filberts is in your products. You don't sell filberts canned, shelled, or otherwise?

Mr. BODNER. That's correct, Mr. Chairman.

Senator PACKWOOD. Now, Mr. Causse, you import filberts. I take it you sell them to companies like Mr. Bodner's.

Mr. CAUSSE. I am an agent, Mr. Chairman. I represent Turkish exporters and Italian exporters. I represent large European resellers. Our trade is to sell to firms like Entenmann's and other manufacturing importers as well as regular importers.

Senator PACKWOOD. Now on the nuts that are used in this country for further secondary and tertiary purposes—whether they are ground up into paste like Entenmann's does or otherwise used for purposes other than eating them as a whole nut—are most of those nuts imported?

Mr. CAUSSE. You are talking only about filberts?

Senator PACKWOOD. Yes.

Mr. CAUSSE. No. I would say that about half come from Turkey and about half are produced in Oregon as far as the consumption is concerned.

Senator PACKWOOD. As far as the consumption of whole filberts. You are eating it as a filbert.

Mr. CAUSSE. As an eating filbert, probably less from Turkey and much more from Oregon.

Senator PACKWOOD. Steve, questions?

Senator SYMMS. Mr. Chairman, maybe some of the earlier witnesses, which I missed—I apologize—might have pointed this out, but how many—which one of you is from Oregon?

Senator PACKWOOD. The previous panel.

Senator SYMMS. I guess the question I wanted to ask was what crop was going to be grown if the filbert—if they stop producing filberts in Oregon.

Senator PACKWOOD. I think one of them could probably answer none.

Senator SYMMS. Are they going to go into wheat production? We have got that in the Government program. Or were they going into apple production or potato production to compete with Idaho? Or what is the situation?

Senator PACKWOOD. Mr. Hansberry is answering.

Mr. HANSBERRY. We had a very fine canning business going on in Oregon, that has all but disappeared to the Midwest and Eastern States. This gives rise and hope that we can get a few filberts planted in Oregon. If filberts disappear, I guess there is nothing left but surplus wheat.

Senator SYMMS. I just wanted to make an observation of something. And I appreciate the people who are testifying here this morning, but in terms of the consumer of the United States, they get the best bargain in the world on their food. I think we should, you know, point that out. Maybe that was already brought to our attention by previous witnesses, but the American consumer spends about 15 percent of their disposed income for groceries, which is the lowest of all places in the world. So I think there are some reasons to consider whether or not we want any domestic production. I mean if we don't want to ensure any supplies of domestic

filberts, well then I guess maybe it isn't of national security interest. I don't know. Maybe it is. But I just think that that's a consideration that I would just point out here.

Now this gentleman that passed out this piece of cake here, Mr. Bodner, was that made with foreign or domestic?

Mr. BODNER. Unfortunately, we have attempted in the past to use the domestic product and it does not give us the flavored characteristic that we look for. And at the present time, all the filberts that we are using are imported either from Turkey or from Italy.

Senator SYMMS. This was a foreign one that I was eating here?

Mr. BODNER. That's correct.

Senator SYMMS. All right.

Thank you, Mr. Chairman.

Mr. CAUSSE. Mr. Chairman?

Senator PACKWOOD. Yes, sir.

Mr. CAUSSE. I would like to correct a misconception about the quality of Turkish filberts imported into the United States as compared to the quality being shipped to Germany.

Until the Department of Agriculture came into the business of inspecting imported filberts, the FDA was the responsible regulatory agency, and its tolerance for defects was up to 5 percent. Beginning in February 1978, Agriculture came in and its tolerance was established at a much lower figure. And as we know, it's 1 plus 1 or 2 percent today.

Turkey had been exporting to this country only old crop until 1978. Since then, Turkey has exported only new crop filberts to the United States. Old crop filberts cannot pass the rigid or strict Agriculture inspection standards. So what Turkey exports over here, by the Government cooperative at least, is the same quality that it ships to Germany. What the private exporters in Turkey export to Germany is no different than what they would try to ship here except the quality that they would ship to Germany would not pass over here in many cases because the control of quality in Turkey by the private sector is not so strict as the control by the Government cooperative. Consequently, most shippers in Turkey have had to abandon the American market already because they can't meet the 1 plus 1 or 2-percent standard. And this is an area of competition which they don't need.

So what I'm trying to say is that Germany imports a quality of filbert which is no better than what we take here. In fact, they would be happy if they could get this quality all the time in Germany because you have there, as you know, large manufacturers like Lyndt, Souchard, Cailler, Nestle who put only the finest filberts into their chocolate bars. And they need a filbert which runs 2 or maybe not more than 2½ percent defective.

But that's not the bulk of the filberts going to Germany. Most of the filberts going to Germany could run up to 4 or 5 percent defective. But there's a trading market in Germany so that when they receive these lower qualities, they can make an adjustment with the Turkish shipper on the price and still consume those qualities in certain outlets that they have that don't require such strict quality.

Over here, the Turkish shippers and the Italian shippers are bound to meet the agriculture standard or else their qualities are

not accepted into the country, and they must be reexported at considerable loss to the shippers because they can't be sold at the same price to any other market.

I just wanted to make that point.

Senator PACKWOOD. Thank you, sir.

Mr. Bodner, let me ask you further. You like the imported filberts because of the oil quality to them as opposed to the furnace dried nuts here.

Mr. BODNER. As I said, we suspect it to be oil, but it's really the flavor that we are after.

Senator PACKWOOD. And from your standpoint it really makes no difference whether you had a 1- or a 2-percent factor. I mean the 2-percent standard is perfectly adequate from your standpoint. And the fact that you have got a 2-percent decay factor, you can simply mix all the nuts together and it doesn't disturb the taste factor. One percent probably wouldn't either, but you don't need a 1-percent standard is what you are saying.

Mr. BODNER. That's correct, Mr. Chairman.

Senator PACKWOOD. Thank you. I have no further questions.

Steve.

Senator SYMMS. No questions.

Senator PACKWOOD. Gentlemen, thank you very much for coming.

[Whereupon, at 10:31 a.m., the hearing was concluded.]

[The following communications were made a part of the hearing record.]

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance in a hearing on S.2429, a bill to increase the tariff on imports of shelled filberts
September 14, 1984

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

S. 2429 would double the import duty on shelled filberts from 8 cents a pound (the most-favored-nation rate negotiated with Turkey in 1939 and bound under the General Agreement on Tariffs and Trade in 1951) to 16 cents a pound. Shelled filberts that fail to meet the quality standards applicable to domestically produced filberts (as determined by the U.S. Department of Agriculture and equivalent to the standard commonly known as Oregon No. 1 Grade) would be subject to a duty of 66 cents a pound. The proposed non-mfn rates (18 cents a pound and 68 cents a pound, respectively) are currently of no consequence since Turkey (accounting for about 70 percent of the world crop), Italy (about 22 percent), Spain (about 4 percent) and the United States (nearly 4 percent) constitute virtually the world's total production of filberts (or hazelnuts).

We note with concern the domestic industry's claims that imports of shelled filberts (mainly from Turkey) are significantly of lower quality than the U.S. product, a factor that is said to hurt the development of the U.S. market for filberts; that the European Community (the main market for Turkish filberts) has quality standards as strict or stricter than those the U.S. growers are seeking; that foreign exports are competing unfairly in the U.S. market (through subsidies and other devices); and that the U.S. Department of Agriculture has not given adequate attention to the problems and needs of the U.S. filbert-growing industry. The proposed bill is designed to address and redress these issues.

We are pleased to note that the International Trade Commission, at Congressional request, is studying the state of the U.S. filbert industry and will be completing its analysis in 1985. Although the present bill cannot get a Congressional vote this year and in any event is opposed by the Administration, the fact that it was introduced, and the present hearing this late in the session, seem to be an attempt to strengthen the prospects for Executive Branch

action along the lines the U.S. growers have requested.

Our Council has not had an opportunity to study the problems and needs of this U.S. industry. However, we do feel that any government assistance to this industry (to whatever extent government help is justifiable consistent with the national interest) should address the whole range of the industry's problems and needs in the framework of a coherent, constructive "hazelnut development strategy". Any import restriction, if justifiable at all, should be only a temporary measure of last resort. We note that one purpose of the additional import restraints the industry seeks is to provide lead time for the industry to develop. If additional import restraints are justifiable at all for such a purpose, they must be components of a coherent development strategy in which government, industry and labor all make appropriate commitments. One component of such a strategy should be reassessment of all statutes and regulations materially affecting the industry's ability to adjust to today's international economic realities. Any inexcusable inequities should be corrected forthwith.

Although the ad valorem equivalents of the specific duties on imported filberts have substantially lessened since the present duty of 8 cents a pound was set in 1939 and bound in 1951, this effective lowering of the import barrier is not something to be lamented. A tariff that has stayed unchanged for so long ought to be cut, and the prospect of further cuts and of ultimate removal of this subsidy ought to be factored into the filbert industry's planning and into the government's overall policy toward this industry. We hope the ITC study includes the full range of material needed for the kind of filbert policy that apparently is long overdue.

If the filbert industry believes that foreign competition is unfair or otherwise damaging (according to the standards provided in U.S. trade law), it should avail itself of the proceedings established by U.S. trade legislation to deal with such matters. The possibility that import restraints of some kind -- anti-subsidy, anti-dumping, the "import relief" variety, etc. -- might induce foreign retaliation should not foreclose recourse to such barriers if they are deemed essential as temporary components of a coherent filbert strategy addressing the real problems and needs of this industry. U.S. trade legislation promises nothing less to a worthy petition for government help -- for government assistance that deals soundly with the interests of the petitioner and of the national interest as well.

The present bill is ill-advised.

PUBLIC VOICE FOR FOOD & HEALTH POLICY

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September 12, 1984

Senator John C. Danforth
Chairman, Subcommittee on
International Trade

Senator Bob Packwood
Chairman, Subcommittee on
Taxation and Debt Management

Committee on Finance
U.S. Senate
Washington, D.C. 20150

Re: S. 2429

Dear Senators Danforth and Packwood:

We understand that your Subcommittees will be conducting a hearing on S. 2429 on Friday, September 14, 1984. Public Voice strongly opposes that legislation as contrary to the public interest and requests that this comment be made a part of the official record of the hearing.

Public Voice is a consumer group that advocates a wholesome, nutritious, and reasonably priced food supply for all Americans. S. 2429 would amend the tariff schedules of the United States to increase by 725% the current duty on imported shelled filberts which fail to meet standards established by the State of Oregon. The duty on imported filberts meeting Oregon standards would be increased by 100%. The immediate and direct result of S. 2429's passage would be increased prices for the importer and the food processor. Ultimately, the United States consumer would bear the added costs.

At the present time, imported filberts meet the grade and quality standards of the U.S. Department of Agriculture and the Food and Drug Administration. Thus, there is no Federal health, safety or aesthetic concern with the importation of foreign grown filberts. Furthermore, we can see no particular reason why filbert imports for fifty states should be required to meet the standards

of a single state. If your Subcommittees establish such a protectionist policy, in the future the State of Michigan will be able to determine the standards for imported automobiles and the State of Texas will be able to establish the standards for imported oil. Such a policy would ignore the best interests of citizens of the forty-nine other states and would cause sharp increases in the price of imported commodities to the detriment of American consumers.

For all of these reasons, we request that your Subcommittees table further action on S. 2429, since this bill is contrary to the public interest.

Sincerely,

Susan Banes Harris

Susan Banes Harris
Director of Government Relations